

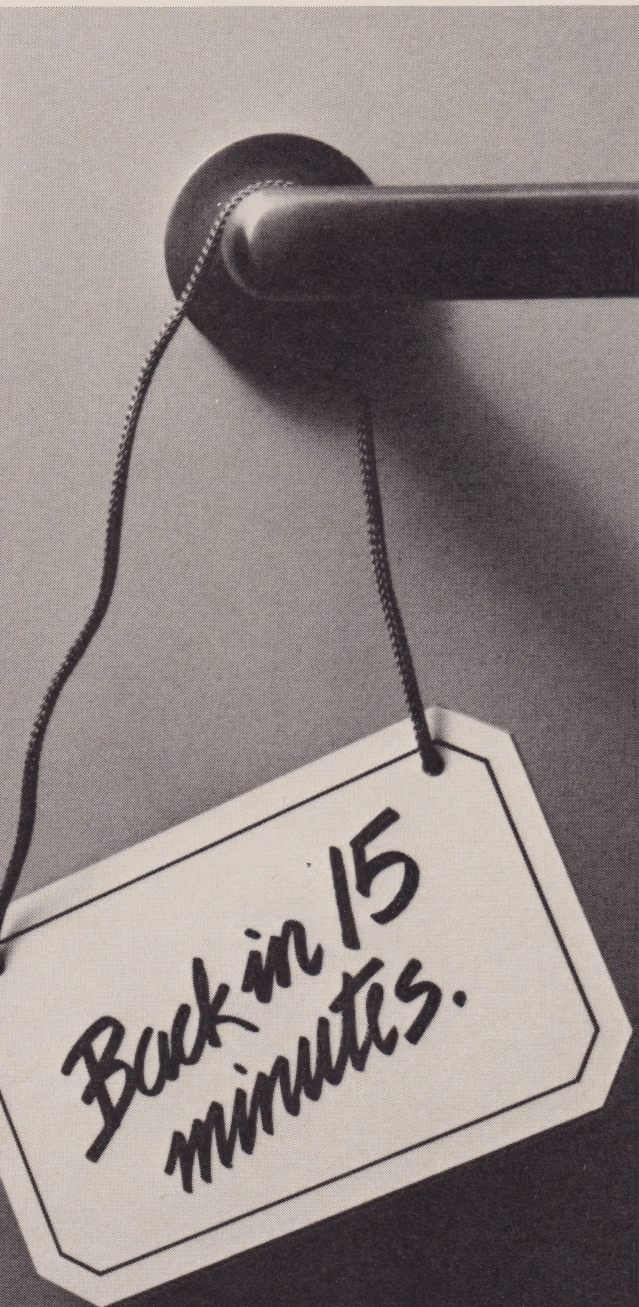
ATLANTIC PERSPECTIVE

A year-end review
of economic conditions
in 1983 with an
outlook for 1984



Prepared by **APEC** atlantic provinces
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THE ATLANTIC ECONOMY IN 1983:

Mixed reviews

There is a dizzying array of opinions currently in circulation concerning the state of the North American economy. Some analysts and politicians argue that the recovery is well under way. Indeed, the American ambassador on a recent visit to Atlantic Canada boasted that a 10.9 per cent growth rate for the U.S. economy in the last quarter of 1983 would endure, and played down critics who have expressed concern about the stability of the recovery.

Other observers have pointed to continuing high unemployment, and at levelling off in the rate of improvement in some indicators, such as retail spending and housing starts, as evidence that the recovery is at best very weak.

The true picture will only emerge in hindsight, but is probably somewhere between these two extremes. Certainly, there is a recovery under way, but it will not be strong enough to pull all unemployed resources and industrial capacity back to work. In particular, we are unlikely to see a return to strong real growth rates in the order of 3 or 4 per cent which characterized the Canadian economy for most of the 1970s. In addition, the recovery may not be strong enough to allow durable improvement in Atlantic Canada.

Retail sales and housing starts improve

Consumer spending in the shape of retail trade has traditionally been an important motivation to growth in the Atlantic economy. For much of 1983 there was a substantial increase in the total value of retail sales in the region, especially for so-called big-ticket items (also known as consumer durables) such as motor vehicles and household appliances and furniture.

Since this early surge in spending, consumer activity has levelled off. This may reflect several factors, such as continuing high unemployment contributing to a decline in total real disposable income (the amount of spending money available after taxes and so on). There is also evidence that much of the increase in spending was financed by savings, and this traditionally has not been a bottomless pit.

Residential housing construction also moved sharply upwards early in the year. Lower interest rates and generous government incentives for new home-building were largely responsible. Since the incentives have expired, and as the interest rate ticked upwards slightly, this early increase in activity has not been maintained at the same level.

What do we make of a surplus in trade?

Some analysts have also argued a surplus in merchandise trade will stand the country and this region in good stead in strengthening the recovery. This may be misleading. Our export position looks strong because demand for these exports went down much less than our demand for imports.

For example, the tonnage of export cargo shipped through Saint John declined by 45 per cent to the end of July 1983 compared to the same period a year earlier. As import demand is likely to increase quite rapidly, it will probably outstrip the rate of growth of export shipments, particularly as American recovery slows down somewhat.

While a strongly paced recovery is not in the cards, the spirit of enthusiasm which was encouraged by retail sales spending is likely to be replaced by more stable growth, albeit at lower rates. The gradual reduction in inventories, and higher rates of capacity utilization at many regional plants should encourage much-needed investment. The major

concern at the moment is the timing of this trend. Many of Atlantic Canada's most important industries, such as pulp and paper and the fishery, face intractable problems which will deter any decision to expand or modernize plants.

The massive size of government deficits, at both provincial and federal levels, precludes much public spending apart from that already committed. There can be little encouragement for recovery, therefore, from this source.

1983 performance

Canadian gross national product in real terms (the sum total of what we produce as goods and services making allowance for inflation) is expected to grow by about 2.7 per cent in 1983. This itself will be a vast improvement from the 5 per cent decline registered for 1982. This national performance masks quite wide variations, however, from province to province.

Newfoundland is expected to see rather poor growth in 1983 as its major industries (forest products, fish products, and iron ore) are still beset by recession and soft markets. Nova Scotia, on the other hand, will be a national leader due to a relatively more diverse economic base, and buoyancy due to offshore oil and gas exploration. New Brunswick and Prince Edward Island will fall somewhere between these two extremes.

Canada has performed relatively well in comparison with other major industrialized nations. In such areas as improving real income, reducing inflation, increasing sales, and generating jobs, both Canada and the United States are in the vanguard. Whether this can be maintained, especially in the Atlantic region, and whether the most serious problem of long-term structural unemployment can be solved thereby, will be the test for 1984 and beyond. ■

APEC

atlantic provinces
economic council

Note

The information on which this supplement is based was assembled in late October and early November to meet a deadline for submission for publication on November 7. It reflects the most recent and accurate data available. The nature of the economic beast, however, may mean that statistics especially become out of date rather quickly. Please bear this in mind as you read the supplement.

The Atlantic Provinces Economic Council is an independent, non-profit, non-partisan research institute which has given commentary on, and analysis of, the Atlantic economy since 1953. This supplement represents the latest in a series of annual reviews of conditions in the Atlantic region.

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ISSUES IN THE ATLANTIC E

A preface to the Macdonald Commission

Every few decades a purge to the Canadian economy comes along in the form of a Royal Commission. The most recent is the Royal Commission on the Economic Union and Development Prospects for Canada, perhaps better known as the Macdonald Commission after its chairman.

The work of the Commission will be spread over three years before a final report emerges, and includes much analysis of the economic structure of the nation and its regions, and two rounds of public hearings across the country.

The Commission begins its work at a particularly critical time for the Atlantic region.

All four provincial governments are faced with reducing appreciable accumulated debt at a time when revenues from both their own sources and the federal government are declining. There are other changes in the works which affect cherished federal regional development policies. (In this last respect, regional development policies largely emerged from the last major Royal Commission on the Canadian economy, the Gordon Commission which reported in 1957.)

There are many problems facing the Atlantic economy in the early 1980s, but three stand out as of paramount importance. These are **investment, unemployment, and low productivity**. All are interrelated in very many complex ways, and each is examined briefly in this article.

Investment

The resource-based economy of the Atlantic provinces means the region suffers more than other parts of Canada from seasonal and cyclical fluctuations, particularly those surrounding changes in demand in major markets. Government policy since the late 1960s has been largely to diversify this economic base by stimulating investment, particularly in manufacturing. This was largely prompted by the fact that, in the mid-1960s, investment per capita was well below the national average. Many government incentives were directed towards manufacturing industries in the early 1970s under such programs as the Regional Development Incentives Act.

Federal spending under these programs peaked in 1970-71, and indeed investment per capita in Atlantic manufacturing climbed to 129 per cent of the national average compared, for example,

with 57 per cent in 1965. Since that time, however, there has been substantial decline in this indicator, to about 59 per cent of the Canadian average in 1981. In effect, there has been no improvement in manufacturing investment in the region vis-à-vis the national picture since 1965.

Total investment, including primary, construction and tertiary sectors, has in fact declined from 83 per cent of the Canadian average on a per capita basis in 1965 to 69 per cent in 1981. Once again, this figure surged to a level of 93 per cent in 1970-71 before dropping back. There is little remaining from this surge in the early 1970s, as many big projects, such as Clairtone in Nova Scotia and Bricklin in New Brunswick, subsequently failed. Many jobs created in the first place did not survive, and there has been little in the way of extra capital investment in the region since the mid-1960s.

Unemployment

Historically, unemployment rates in the Atlantic region have been higher than the national average. This has applied both in good times and bad. In 1972, for example, the national unemployment rate stood at 6.2 per cent of the labour force compared to a rate of 7.6 per cent in Atlantic Canada. In 1982, these rates were 11 per cent and 14.4 per cent respectively.

The unemployment rate for the region also masks large variation between different parts of the region. In Nova Scotia, for example, the provincial average in mid-1983 was 11.8 per cent, but the average for Cape Breton was 17.2 per cent. The provincial average in New Brunswick was 13.9 per cent, in north-eastern New Brunswick it was 18.3 per cent. Extreme examples are found in Newfoundland, where the rural west coast has an alarming one in five people out of work compared to an already substantial provincial average of 17.6 per cent.

There are further variations hidden behind these average figures. The unemployment rate for young males (between 15 and 24 years old) is much higher than the average, both in the region and nationally. In Newfoundland and New Brunswick it reaches rates of 43 and 37 per cent respectively. The national average is 27 per cent.

Why are so many unemployed? This is due partly to a more rapid growth in numbers in the labour force during the 1970s. While new job creation has been considerable, many of these jobs have appeared in resource-based and service sectors which may operate only seasonally. There are claims also that Unemployment Insurance has encouraged people to remain in the region who may otherwise have moved to other regions to find

work. This applies especially to low-income, low-skilled workers.

The costs of such high unemployment are considerable. Unemployment insurance payments per capita in 1981 were \$199 for Canada as a whole, but were much higher in Atlantic Canada. There they ranged from a low of \$282 in Nova Scotia to a high of \$519 in Newfoundland. Higher unemployment also contributes to lower earned income as a proportion of total personal income. As a proportion of the national average, earned income in Atlantic Canada ranged from a low of 54 per cent in Newfoundland to a high of 74 per cent in Nova Scotia. Consumer spending is reduced correspondingly. Lower incomes also result in lower tax revenues. Most importantly, unemployment means a loss of human resources. Recent studies by the Economic Council of Canada reveal that spells of unemployment in Atlantic Canada end, in more than 50 per cent of cases, with workers being discouraged by lack of work and leaving the labour force.

Productivity

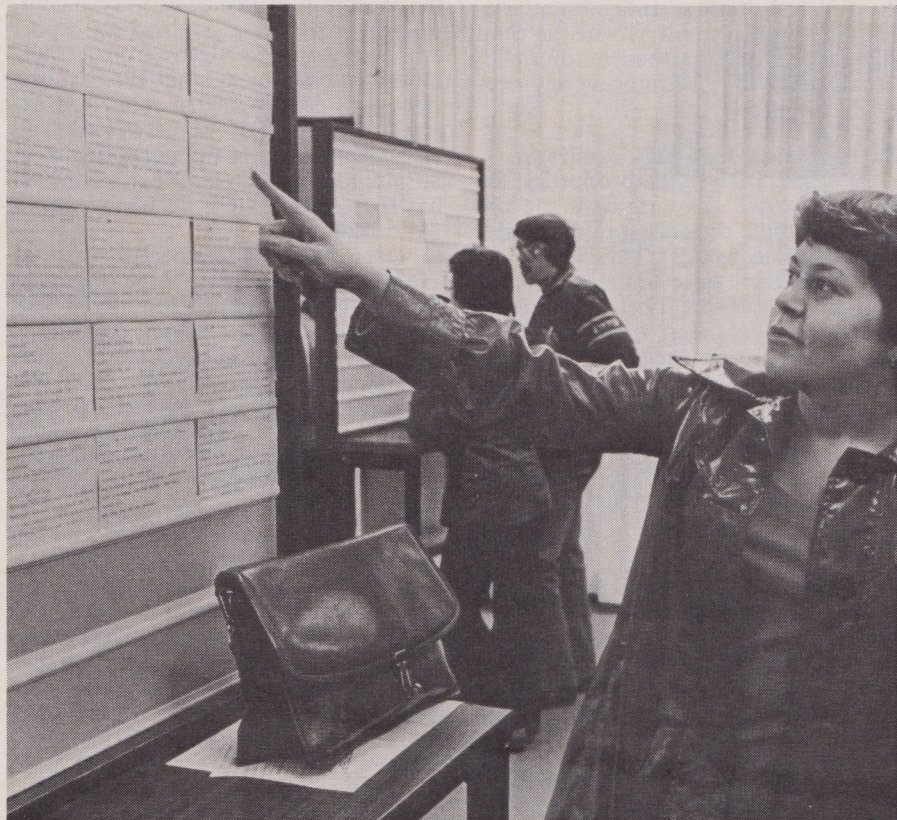
Spells of unemployment also mean that labour skills deteriorate and this, in turn, contributes to low levels of productivity. This is not solely an Atlantic region problem, but is frequently bemoaned at the national level. At present, there is great attention to new types of technology that are revolutionizing in-

dustry around the world. There are fears that Canada has missed the boat in this respect, and this compounds problems of low productivity because of low levels of investment, little emphasis on research and development, and the generally lower skill levels of Canadian workers.

This is of particular concern in the Atlantic region, where research and development spending, per capita investment, and education and skill levels of workers all tend to be lower than the national average. What translates to a major problem at the national level becomes a critical situation at the Atlantic level.

Questions for the Macdonald Commission

- Are present federal programs adequate to stimulate investment, or do we need a radical restructuring of the tax system to direct investment to particular areas?
- Is the situation of unemployment benefits as an integral part of personal income in the region acceptable, or is it merely creating a "dependence" mentality, particularly among young people?
- Is emigration to find work elsewhere the only way to solve unemployment?
- Do recent reductions in federal allotments for post-secondary education mean that inadequate labour skills will be eroded even further?
- How do we stimulate entrepreneurship and investment?



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The stimulus for further growth

Trade occurs basically because we cannot produce all the things we need as cheaply as other regions or other countries. Equally, there are some things we can produce better than others. Logically, therefore, it makes sense to trade what we can produce better for those things we would like, but cannot produce so well ourselves.

Of course, this theory underlying trade is not always allowed to work without being interrupted. A variety of institutional mechanisms, such as tariffs and quotas, have been introduced ostensibly to protect domestic industries and jobs against cheap foreign imports, and the early 1980s see a disturbing trend to increase the number of these so-called barriers to trade.

A region such as Atlantic Canada (indeed, a nation such as Canada) must learn very quickly to export most of its production of goods. There is a small internal market as the population is small and cannot hope to absorb all the region's production. Much larger markets exist outside the region, in such places as Europe and the United States. And the region is very well located to ship to the most important foreign buyers.

Export trade: A primer

The decade of the 1970s has, indeed, seen great strides in growth of exports from Atlantic Canada to foreign markets. Traditional types of exports, such as forest products and fish products, have expanded, and have been joined by other types of goods, such as electrical power from Labrador and New Brunswick, tires from Nova Scotia, and a wide variety of food products from throughout the region.

Forest products remain the most important single source of export earnings in the region, and brought in more than \$1.3 billion in 1982. Fish products are also very important, and were worth more than \$1 billion in 1982. Much of the expansion in sales of fish to foreign buyers has occurred since Canada extended its exclusive economic management zone to a distance of 200 nautical miles offshore in 1977.

Total exports in 1982 to foreign countries were worth almost \$4.5 billion, but even this impressive figure does not compare to the almost \$5 billion in exports in 1981. The recession which started in 1981 has severely eaten into export earnings, particularly for raw materials or for so-called semi-finished products such



- A decade of growth since 1971 came to a shuddering halt in 1982 as exports from Atlantic Canada fell prey to global recession
- Performance by Atlantic provinces over the first two-thirds of 1983 generally reflects slowish recovery in major export markets around world.

as woodpulp, minerals, mineral ores and concentrates, and electricity. "Semi-finished" here means that the exports are destined to enter the productive process to be made into other end products (for final sale to consumers or businesses) in other parts of the world.

The export of raw materials or semi-finished products means that much of the value added to regional resources goes to line the pockets of manufacturers who live in other countries, rather than staying in Atlantic Canada. For example, iron ore mined in Labrador is shipped to a steel mill in the American middle west. Here it is made into steel, and may be sold again by the steel mill to an auto manufacturer. He further turns the steel, and other materials, into an automobile which then is sold to the final buyer.

At each stage of this process there is a value-added component, and this tends to increase the further the iron is turned into finished product. It is clear, therefore, that only a small part of the final value-added (the finished automobile) actually stays in Labrador as payment for its resource.

The low-value, high-bulk syndrome

A disturbingly high proportion of Atlantic Canada's exports are in the low value, high bulk category (raw materials, or semi-finished goods). This also means that they carry only limited costs of transportation before it becomes too expensive to ship them. In general, the lower the value, and the higher the bulk, the closer the production of an item must be to final market.



DAVID NICHOLS

It also follows from this that the more end products (final consumer items) that can be produced within Atlantic Canada, the more distant markets that can be served competitively. An example could involve two of the region's major products, newsprint and tires. Newsprint, a semi-finished product which is produced in Atlantic Canada is mostly sold in the eastern United States. Outside this region, it has difficulty competing with other producers. Tires produced in Nova Scotia, however, are sold in a much wider market all over North America. By being able to spread out the market over a wider area tire manufacturers are better able to withstand reductions in demand, and to survive downturns in economic conditions.

1983 export performance

All four provinces, in 1983, have continued a slide which began in 1981 in the value of their exported products, with the exception of Prince Edward Island. In this province, a contract to export evaporated milk to Algeria from a Charlottetown plant meant that 1982 exports were considerably higher than 1981 exports. To the end of August in 1982, value of Island exports amounted to almost \$63 million, and the same period in 1983 has seen only a slight decline to about \$61.5 million.

Over the same time period, value of exports from the other three provinces has declined. For Newfoundland and New Brunswick, this reflects continuing difficulty in major resource sectors, such as minerals, forest products, and fish products. In Nova Scotia, better performances in food exports and semi-finished products have not been sufficient to offset declines in other exports such as rail-cars and steel rails.

Given a relatively small internal market within the region, Atlantic Canada must export to grow. More immediately, export growth is a vital part of recovery from recession. The performance in 1983 to date has not been outstanding in this respect, and for some parts of the region 1984 may only bring marginal improvements. In general, however, all exports are likely to grow basically in line with overall economic conditions in North America. ■

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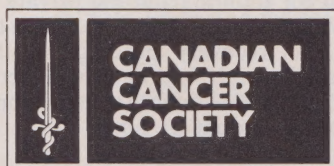
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INFLATION

Interest rates and public finance

Changes in interest rates have dominated economic performance since the end of the 1970s. Record high levels in 1981 played a major part in encouraging the recession which began in the second half of that year, and though they are much lower now, even the slightest movement upwards sends shivers through the economy.

The reason interest rates went so high was, according to economic policy makers, to limit spending and thereby control public enemy number one, inflation. The cost of this control has been high in terms of jobs, falling industrial production, and bankruptcies.

There have been strides in controlling inflation, however. At the beginning of 1983 the rate of increase of the Consumer Price Index stood at almost 9 per cent for Canada as a whole. By the third quarter the rate of increase was down to a much more respectable 5 per cent.

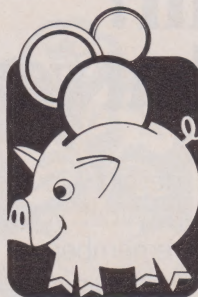
Regional performance varied around this national average. The rate of increase in Prince Edward Island was lower than the national average, but quite hefty increases in certain items, especially provincial taxes, kept the rate quite high in the other three provinces. Indeed, much of the upward pressure on prices in 1983 has come from those prices which have, in varying degrees, some measure of government regulation.

The problem of "real" interest rates

This quite impressive performance in reducing inflation has occurred as interest rates themselves have stayed relatively stable, in the 11 or 12 per cent range. This affects something called the "real prime interest rate," or more simply actual interest rates adjusted for inflation. This real interest rate has, in fact, been increasing since the beginning of 1983 as inflation rates have fallen.

Many observers feel this real interest rate remains too high, and may be stifling the North American recovery. Central banks on the other hand argue that it is necessary to keep actual interest rates well above the rate of inflation to prevent inflation from increasing again. They argue that economic growth may therefore occur at a slower pace, but will be more durable and stable. They do this by controlling the amount of money released into circulation.

This means that the outlook for interest rates depends to a large extent on growth in the money supply as regulated by central banks. If the record in this respect as established in 1983 is anything



- The rate of inflation is vastly improved, and interest rates have stabilized at lower levels than in recent months.
- "Real" interest rates remain rather high, however, possibly due to conscious monetary policy
- Public debt remains a most serious problem, which may affect interest rates over the next few years.

to go by, 1984 could see interest rates decline very gradually as monetary targets are met.

The unknown factor in this complex equation is the effect of massive government deficits on interest rates. During the past two years, public sector financial requirements were well within the reach of lending agencies because demand for money from the private sector was relatively weak as recession took hold. As recovery proceeds in 1984, private demands for money will increase and could create intense competition for a limited amount of funds.

The extent of public debt

It is generally accepted that a relatively weak economic performance in the Atlantic region severely hampers provincial goals of reducing the ac-

cumulated debt. The extent of this debt is sobering, and amounted to about \$10 billion by 1982. Fond hopes that this debt could be reduced by royalties from offshore hydrocarbon production are receding as world oil prices have dropped.

The governments of the four Atlantic provinces all have their debt problems. Budgets brought down in the spring by three of four provinces aimed to reduce these debts by an increased pace of economic activity. This would increase revenues by such means as personal and corporate taxation.

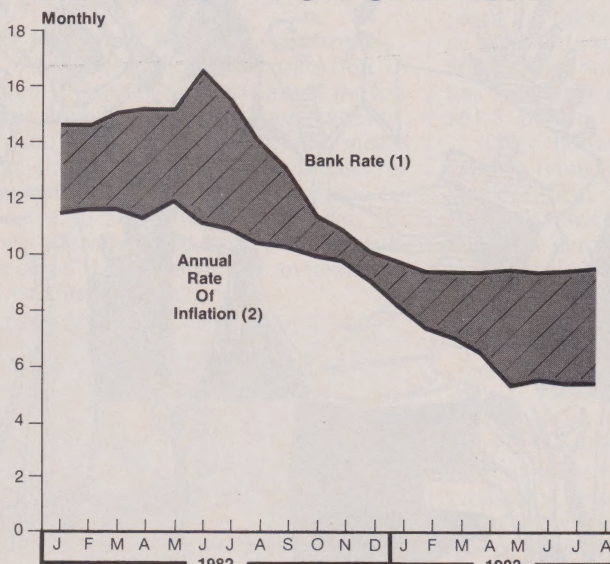
New Brunswick, however, alone among the provinces appears to have taken a much more radical stand in reducing its public debt. This province regards the budget deficits as a structural rather than a temporary problem, and

economic recovery alone, therefore, will not solve the problem. Spending must be reduced and revenue increased. Other, equally unpalatable proposals such as user fees on health services were also introduced. To date, these measures in New Brunswick have not reduced accumulated debt.

Newfoundland also indicated that since its spring budget there has been no improvement in reducing debt as expenditures have increased at a faster rate than revenues. Prince Edward Island has warned that sterner things will follow if current budgetary strategies do not work.

A stronger economic performance in Nova Scotia than elsewhere may reduce deficits some-

COMPARISON OF THE BANK RATE TO THE ANNUAL RATE OF INFLATION FOR CANADA



Source: Statistics Canada.

Note: 1 The Prime Rate charged by the Bank of Canada to Chartered Banks at end of month.

2 The monthly annual percentage change for the Consumer Price Index.



PHOTOS BY DAVID NICHOLS

what as revenues improve. The magnitude of this improvement, however, will depend on post-budget expenditure decisions most of which will not be known until a much later date.

Limited options

The options facing the provinces are limited, therefore. Capacity to increase revenues by increasing taxes is constrained by the fact that the region is already one of the most highly taxed in Canada. As already mentioned, increased revenues from improved economic performance will be rather slow in coming. The deficit of the federal government means that it is restricted in the amount of money it can dispense to the provinces in the form of equalization payments, or payments for health care and post-secondary education.

One option remains: to reduce spending. This will affect the level of government services, and the trend towards introducing user fees for certain of these services is becoming stronger. Public sector wages are also being restrained.

The success of all these measures depends largely on public acceptance of the measures. It appears, however, that all four provincial governments, and therefore residents of the region, are in for several years of very tight belts. ■



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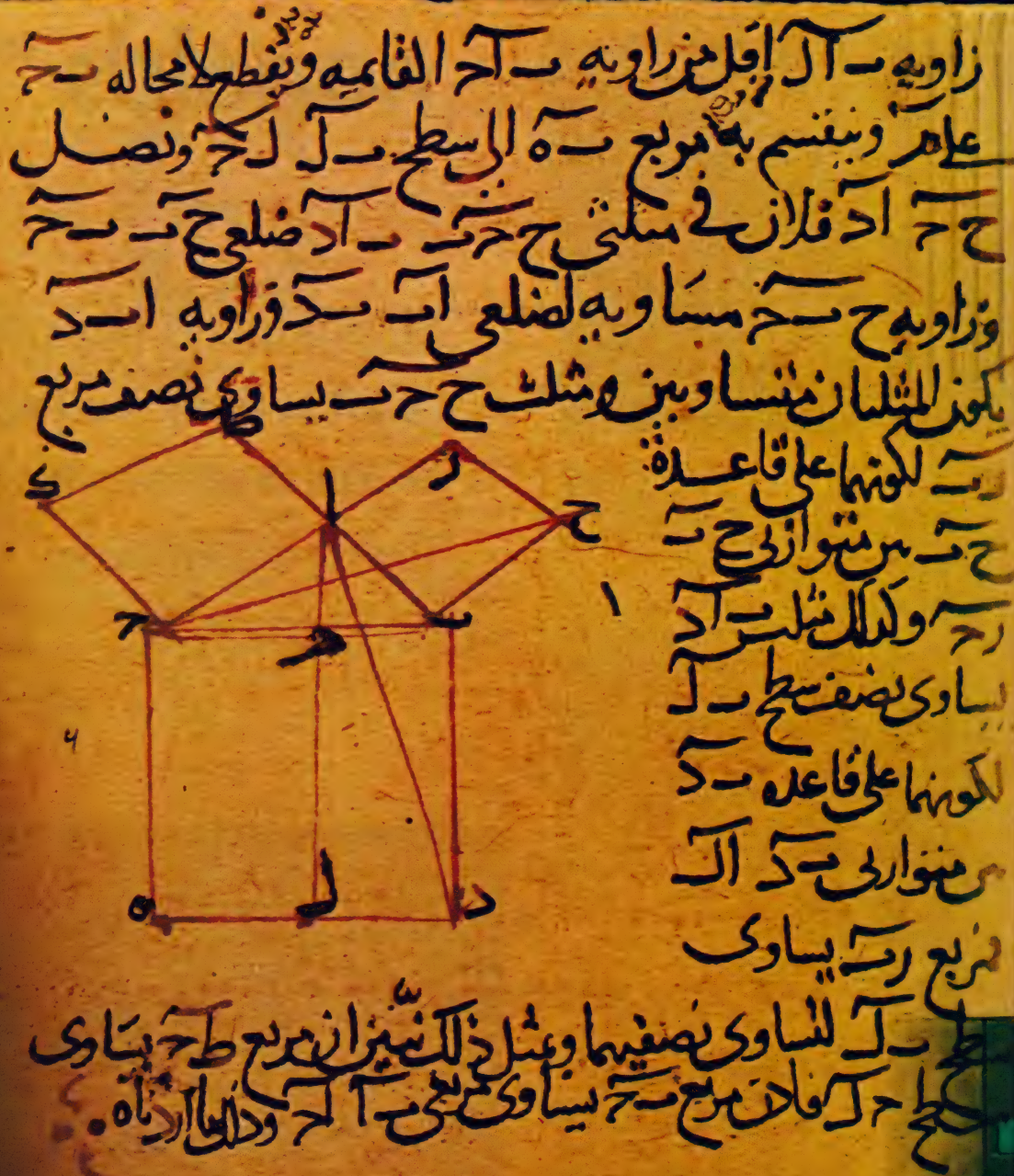


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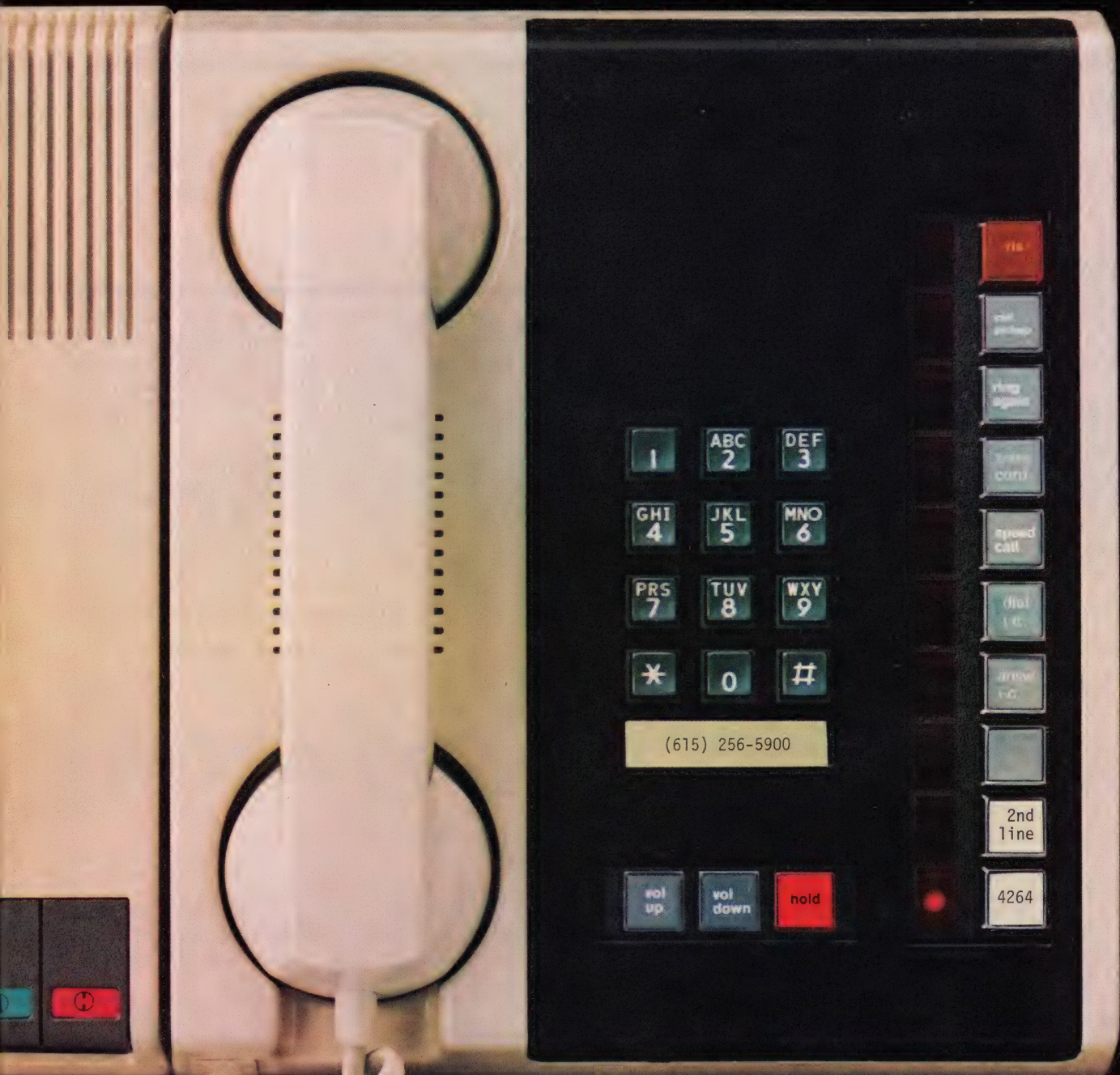
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An Arabic explanation of the Pythagorean theorem, 1258 A.D. (Courtesy of the British Library).

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AGRICULTURE:

Farmers hang tough

Total cash receipts to farmers (the amount of money they actually receive for the sale of agricultural products) in Atlantic Canada fell short of \$400 million to the end of August, a slight decline of about 1.4 per cent over the same period of 1982. If this seems marginal, it must be remembered that 1982 itself was a pale shadow of 1981, and that allowance for inflation would mean receipts actually went down in 1983.

There is a plus side, and this is that costs of production for farmers, which have been rising steeply for most of the 1970s and early 1980s, are easing somewhat, although feed prices did increase rather steeply. This doesn't mean that farmers are doing well, as prices received have remained low in general, but most are managing to survive. Low prices, of course, benefit consumers in their trips to the grocery store.

Potato troubles

Potato growers have been particularly hard hit over the past two years, and declines in potato receipts go far to explain substantial declines in total receipts in New Brunswick and Prince Edward Island. Payments received for potatoes in 1983 largely reflect the performance of the 1982 crop, which was rather susceptible to disease and other serious quality problems. Prices, in consequence, were not good.

As if this were not enough, rarely has the potato sector been so beset by problems largely unrelated to the chores of growing and hoping for a good crop. Proposals for an Eastern Canada Potato Marketing Agency have for long been touted as one way to smooth out wide year-to-year swings in prices, and had gained the qualified support of most potato growers in the five eastern provinces (excluding Newfoundland).

Revised drafts of the proposals hiccupped across the headlines periodically in 1983 before being laid to rest for a while. This demise, it appears, was mostly because of resistance from Prince Edward Island growers to the mechanism by which prices were to be set.

More serious is a threat which would hinder the flow of Canadian potatoes to American markets. Maine growers have for long claimed that Maritime potatoes have been dumped on American markets at prices that undercut their costs of production. They have subsequently demanded some protection in the form of an import duty on Canadian potatoes, and a preliminary decision by American



- Farm cash receipts down marginally, mainly due to big drops in receipts for potatoes in Prince Edward Island and New Brunswick
- Early strength in hog prices did not last as 1983 proceeded, and beef prices also remain low
- Fruit farmers, and other specialist crop harvests, continue to do well.

federal authorities in late summer upheld their claim and recommended an 18 per cent duty. A final decision is expected before the end of 1983.

These structural difficulties have been offset slightly by a reasonable crop and decent prices in 1983, the best year since the bumper harvest of 1980. Prices for a 50-pound sack at the end of October were \$3.60, more than double the figure of one year earlier. This is mainly because crops in most European countries were down after an unusually hot, dry growing season, and exports from the Maritimes to foreign markets are expected to benefit.

Fruit farmers holding their own

Apple crops were down a little in 1983, but prices are much stronger. Processing apples were selling in early October for 4.5¢/lb., one-third higher than one year earlier. Fresh fruit prices will also be substantially higher.

For the second year in a row, blueberry growers set records in terms of output. The total crop in Nova Scotia

was 19.5 million pounds, which compares to 14.1 million pounds in 1982. In light of a large crop elsewhere in North America (particularly in Maine) prices slipped from 60¢/lb. to 45¢/lb. between the two years.

Blueberry prices in 1982 were probably a little too high to keep an important export market in Europe interested in the Canadian product, and a stronger dollar against most European currencies has also hampered export sales to Europe. The Japanese market, however, is still growing, and in 1982 about 4.5 million pounds were exported to Japan.

Hog prices down over 1982

One year ago, hog farmers were reaping benefits from prices which approached \$100 per hundredweight. Feed was relatively cheap and plentiful, and a Japanese embargo on Danish imports was still in force as hoof-and-mouth disease persisted in Denmark. Canadian producers capitalized on the Japanese demand.

These days have passed, and in mid-October, 1983 prices dipped close to \$60 per hundredweight with the prospects of going even lower. The corn crop in North America has been much lower than expected because of a very hot summer and acreage reduction programs in the United States, and feed prices have begun to increase markedly. The American breeding herd has also increased substantially, and prospects of herd liquidation in the face of higher feed costs will depress prices over the next few months.

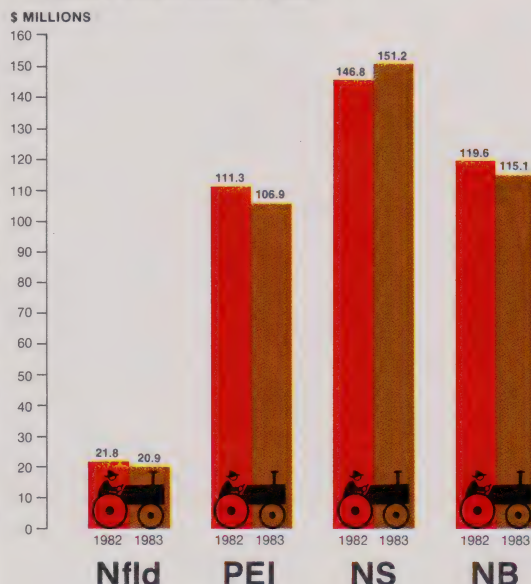
As herd size is reduced, of course, a situation will eventually arise where fewer animals will be ready to go to market, and over the longer term prices will strengthen. Meanwhile, consumers benefit from lower prices for pork.

Beef still struggles

Beef prices have remained

FARM CASH RECEIPTS ATLANTIC CANADA

(January to August—Thousands of Dollars)



Source: Statistics Canada

relatively stable, but at low levels. There were hopes earlier in 1983 that prices would strengthen, but once again the growth in American supplies held prices down. Difficulties in the dairy sector, too, have caused bigger numbers of milk cattle to be sent to slaughter. Atlantic Canada, in particular, gets a good proportion of home-reared beef from dairy herd culls.

Red-meat producers in various parts of the province had other things on their minds in 1983. The Canada Packers plant in Charlottetown was only saved from closure by being purchased by the provincial government, but its status has been reduced to "kill-and-chill" rather than full processing. It appears that Island producers would be advised to examine alternative ways to absorb the higher costs of sending their animals to the mainland for slaughter.

New Brunswick's meat producers also faced closure of an important meat-packing plant during the year, this time by industrial action. This closure at the Hub Packing Plant in Moncton was mainly responsible for a decline by more than a quarter in the number of New Brunswick hogs sent to slaughter.

Changes in Dairying

The dairy sector is undergoing profound change. The great increases in productivity which have characterized Canadian agriculture since 1945 apply particularly to dairy farmers, but more efficient means of production, and more abundant milk and milk products have not been matched, in the 1980s, by increased demand. In the first place, there are fewer school-age children around as the population in general gets older. In the second place, the recession has reduced demand for manufactured milk products such as butter, cheese, and yogurt.

These long-term trends since 1960, for example, have seen total farm sales of milk and cream (for both manufacturing into products such as cheese or butter, or for processing for sale as fluid milk) decrease from 383 litres per person to 308 litres per person. The consumption of butter has declined from a peak of 8.4 kilograms per person in 1963 to 4.4 kilograms per person in 1981, and there has been a levelling off of the increased consumption of items such as yogurt, ice cream, and so on.

The complex system of quotas which controls supply in the dairy industry ensures that prices received by dairy farmers remain fairly high, as they are based on the costs of production. The

obvious way to reduce stockpiles of dairy products, however, is to reduce prices and thereby increase demand. In this respect, both New Brunswick and Nova Scotia have taken steps to deregulate the price of milk at the retail level, while maintaining the price received by farmers under the old system.

These steps have opened the doors for dairies to compete directly at the retail level to increase market shares, and initial skirmishes have already taken place. Smaller dairies, in particular, will feel the pinch of this increased competition.

The future: Cause for some optimism

Atlantic farmers have weathered the recession relatively well, with only a few bankruptcies. To a degree, this has been due to the support of various public agencies and programs. But there is little doubt that agriculture in the region is more healthy and competitive than at any time during the past several decades.

This state of affairs has been achieved only by substantial change within the sector, and by the development of a substantial food-processing industry with worldwide markets. A measure of the strength and character of the sector will be to see whether future challenges can be met and overcome. ■

NOVA SCOTIA DELIVERS.



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Nova Scotia



Department of
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Honourable R.J. Thornhill, Minister
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THE FISHERY:

Big Brother steps in

The events of 1983 will probably change the Atlantic fishing industry irrevocably. The previous year was characterized by relative inaction, with government policy initiatives and long-term corporate business plans stalled as all parties waited for the final report of the Task Force on the Atlantic Fishery (the Kirby Report). This report was released in February, 1983, and the federal government accepted 50 of 57 recommendations.

Although the Kirby Report was a blueprint for restructuring, it contained no recommendation for resolving the immediate financial troubles of the offshore fishery. As the year went on, the inability of the various interested parties to reach agreement, along with unrelenting pressures from cyclical and stock problems, saw an unprecedented round of plant closures within a few weeks. Major Nova Scotia companies posted hefty third-quarter losses and closed down plants; three major Newfoundland companies went into receivership.

Amid threats of unilateral federal action, restructuring proposals were finally accepted in both Newfoundland and Nova Scotia. These will see governments take a much bigger role in the fishery than ever before. Without doubt, 1984 will be a watershed year for the sector.

The 1983 harvest

Away from boardrooms and meeting halls, fishermen and boats were still at sea. Preliminary results for 1983 have been mixed. Groundfish landings (including the important cod and haddock catches) tailed off after a promising start. High catch rates for northern cod early in the season could not be maintained, and there was partial failure of the Newfoundland inshore cod fishery. The offshore and dragger fleets off Nova Scotia were dogged by declining stocks, and early-season closure of important grounds on the Scotian Shelf. These fleets have agitated unsuccessfully for re-entry to the Gulf of St. Lawrence to fish for redfish.

Declining stocks also plague pelagic species, especially herring. There are further complications of too many boats and confusing regulations. Herring landings were down in most areas, and government attempts to divide a shrinking pie more equitably have drawn howls of protest from fishermen. Indeed, the fishermen are demanding increased quotas.

The valuable salmon fishery also had a bad year. Prices were down even though fewer fish were available. This



- Many people claim that things can get no worse than in 1983, a year when the important offshore fishery teetered on the brink of total collapse to be saved only by government involvement
- Volumes of landings, and values, generally down for groundfish and pelagic species, although shellfish (lobster, crab and scallops) do very well
- Although a relatively secure footing has been achieved in the aftermath of the Kirby Report, there is much work remaining to be done before the sector realizes its full potential.

species is extraordinarily difficult to manage given a wide-ranging variety of habitats necessary to sustain its life cycle. Environmental and harvesting pressures are intense at all stages of this life cycle.

Japanese markets for capelin had been strong at the beginning of 1983 but then softened. Prices received by fishermen fell, although volumes landed were on a par with 1982.

Shellfish landings offered a brighter note throughout the region. There were increased landings of lobster in Nova Scotia and Prince Edward Island, and high prices for crab and scallops. Pressures on scallop stocks especially, however, are intense, and actual landings of this valuable species were down significantly. There have been, in addition, calls for more crab licences to allow

Prince Edward Island fishermen to take advantage of this lucrative species. Most licences currently are held in northern New Brunswick.

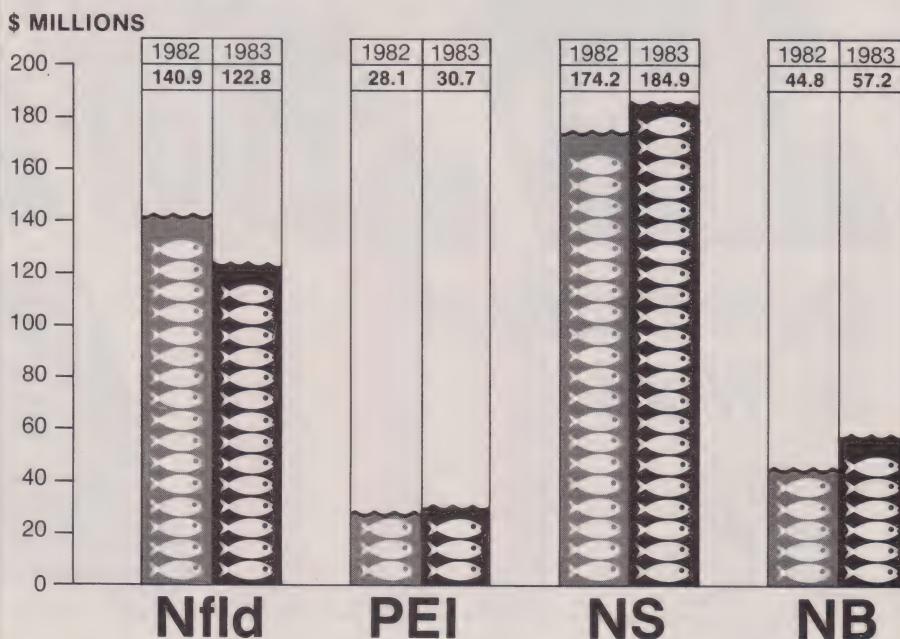
Lobster prices were on a par this year with last, and increased volumes of landings in most areas meant an excellent year. However, it is doubtful whether several years of good catches of lobster and other shellfish can be maintained as stock pressures build up. During 1983, indeed, efforts by regulatory authorities to clamp down on illegal traps in western Nova Scotia spurred a series of most unpleasant confrontations.

Seven months of crisis

It is apparent that catches of most species in Atlantic Canada are approaching the limits imposed by stocks and their ability to regenerate fish pro-

VALUE OF FISH LANDINGS IN ATLANTIC CANADA

(January to August)



Source: Department of Fisheries and Oceans

ducts (the amount of income which actually stays in the region through fishing and processing the catch), improve market access, enhance incomes from fishing, and rationalize the capacity to catch fish.

The Kirby Report made 57 recommendations in 12 vital areas of interest concerning the fishery, and represents an important step forward for the sector. A large majority of the recommendations were accepted by the federal government, and \$190 million allotted to their implementation. Before this process could begin, however, a more immediate crisis arose as the offshore fishery faced imminent collapse.

The offshore, or deepwater, fishery underwent quite dramatic expansion after Canada extended its management zone limits to 200 nautical miles in 1977. Exclusive management of a greatly extended resource, it was thought, was the opportunity most companies and fishermen had been waiting for. Subsequent events have proved that this expansion of capacity, both in terms of boats and onshore processing plants, has not been the bonanza many people expected.

The straw which broke the camel's back in this respect was a year and a half of recession coupled closely to record high interest rates which imposed enormous costs on both processors and fishermen. Undercurrents of dissatisfaction or reservations with the Kirby Report compounded existing problems.

Negotiations to reorganize the offshore sector stalled initially in mid-summer, and plant closures ensued. Most seriously affected were several deep-sea plants on Newfoundland's Burin Peninsula. Some plants are the sole source of income and employment in the communities concerned, and vocal and effective community groups added their voice to the protest.

Effective compromise seemed impossible in such an atmosphere, and the federal authorities began unilateral action to reorganize the Newfoundland fishery in early July. Their plan guaranteed the existence of three so-called non-economic plants, but could not extend this guarantee to three others.

As further negotiations between federal authorities, major shareholders, and major creditors of the companies continued, the region's two biggest processors announced the indefinite closure of 11 plants throughout the region. This was rapidly followed by receivership announcements for Newfoundland's three biggest processors. These developments forced immediate action on the part of all the major players, and proposals began to emerge by late September.

The restructuring

After provincial governments re-

joined discussions, events moved rapidly. A plan for the Newfoundland fishery was announced before the end of September, involving \$150 million in cash and invested equity. A single new company emerged from the ashes of the previous corporate structure, with 60 per cent ownership going to the federal government. Other shares went to the Bank of Nova Scotia (the major creditor), the provincial government, and the employees.

The agreement sees the reopening of some plants which would have remained closed under the original plan. Less than a week later, another plan was announced which covered the Nova Scotia fishery. Once again, a single company will absorb the assets of the big companies which existed previously (H.B. Nickerson and Sons, and National Sea

The marketing program will involve spending \$28 million over the next five years, and will complement \$20 million available through another program for export market development. All the initiatives are timed to coincide with improved economic circumstances.

The two new supercompanies have their critics. Small processors are worried about competition. The governments of New Brunswick and Prince Edward Island are concerned at the exclusion of plants within their jurisdiction from the pacts. There are voices which say that the ideal of the fishery as an economic entity has been abandoned in favour of political ends and job security priorities. Few people regard the extent of government involvement in the two new companies as desirable.

More ominous is the reaction of



PHOTOS BY P.E.I. TOURISM

Products) as part of the \$90-million deal. Some of Nickerson's scallop draggers are assigned to the Newfoundland company, the remainder stay as part of the restructured Nova Scotia company. Once again, federal and provincial governments take substantial shares in the new company.

The aftermath

These efforts to restructure the offshore fishery complement the recommendation of the Kirby Task Force in forming a blueprint for the future of the fishing industry. As well, progress in addressing many of the sector's deep-rooted problems is being made in spite of criticisms and difficulties. A start has been made, based on a Kirby recommendation, on upgrading infrastructure, and a promotional and marketing campaign has been undertaken.

American processing interests. Most Atlantic Canadian fish is sold in American markets, and there have been claims lodged already with U.S. federal authorities for import duties on the Canadian products on the grounds they are being unfairly subsidized by such a degree of public involvement. Similar concerns will probably affect other big markets, such as those in Europe.

Apart from these difficulties, for the first time in several years the sector has an opportunity to start afresh. A more secure foundation has been established for a while, and will give fishermen a further chance to take advantage of the promise which followed the 1977 extension of management control by Canada. It is hoped that this time all concerned in the fishery, individuals, regulators, and processors, will benefit. ■

FORESTRY:

Mixed results

Canadian newsprint production in the third quarter of 1983 hovered between 80 and 86 per cent of capacity, a marked improvement over the 70 per cent or so in 1982. And housing starts both at home and in the United States were well ahead of 1982. These two facts alone do much to explain the differences in economic performance between the two major parts of the Atlantic forestry sector in 1982 and 1983.

Lumber does well

At the beginning of August, Maritime lumber production was up by 30 per cent over the same period of 1982. Most of this lumber is destined for the construction industry. At home, housing starts improved quite dramatically on the heels of lower interest rates and a series of government incentives to assist homebuilders in the early months of the year. Sawmills reopened, and some of the bigger ones even announced expansion plans.

Market conditions are expected to remain strong aside from the seasonal dips that characterize the winter months, although actual production in the early part of 1984 will probably not reach the levels of the same period in 1983.

There is still considerable risk involved in lumber markets as overall confidence in economic activity remains low. This could mean that mill inventories could accumulate and another round of closures could begin. Canadian lumber producers are, however, relieved that attempts by American millers to have an import duty placed on imports from Canada earlier in 1983 failed.

Exports of lumber to the United Kingdom have remained relatively depressed. This affects Nova Scotia mills more than New Brunswick mills. Movements in exchange rates in favour of Scandinavian currencies, particularly the Swedish krona, have seen much of the increased demand go to Scandinavian mills.

Over the first half of 1983, the Swedes increased their sales to the U.K. by two-thirds, and to West Germany by 60 per cent. The outlook in this market, however, may be brighter as demand outstrips the capacity of Scandinavian mills to meet orders.

Pulp mills still below capacity

The Atlantic pulp and paper sector remains well below capacity. By mid-summer, levels of production at mills was lower than in 1982 as companies kept inventories low. Total value of newsprint shipments for the region was down by 16 per cent to the end of August, and pulpwood production was down in all



- Lumber mills reaped the benefits of renewed vigour in housing industries both in the region and New England
- Pulp and paper mills, especially in New Brunswick and Newfoundland, continue to face soft markets and intense competition
- Supplies of trees for the region's mills quite severely jeopardized as disease, insect infestation, and decades of little conscious management come to a head.

provinces except New Brunswick.

This relatively slow pace for the pulp and paper sector reflects an international market which remains soft, and international competition which is most intense. Buyers of paper products are also, it appears, keeping their inventories low in line with final demand. American consumption of newsprint to the end of August, for example, was up by only 3 per cent over 1982.

Another important market for Canadian newsprint is in the European Economic Community. This market will almost certainly be much less available in the near future as trade barriers are erected and preference extended to Swedish and other Scandinavian producers. Canada sold 711,000 tonnes of newsprint to the EEC in 1982, and par-

tial exclusion from this market would threaten Newfoundland mills especially.

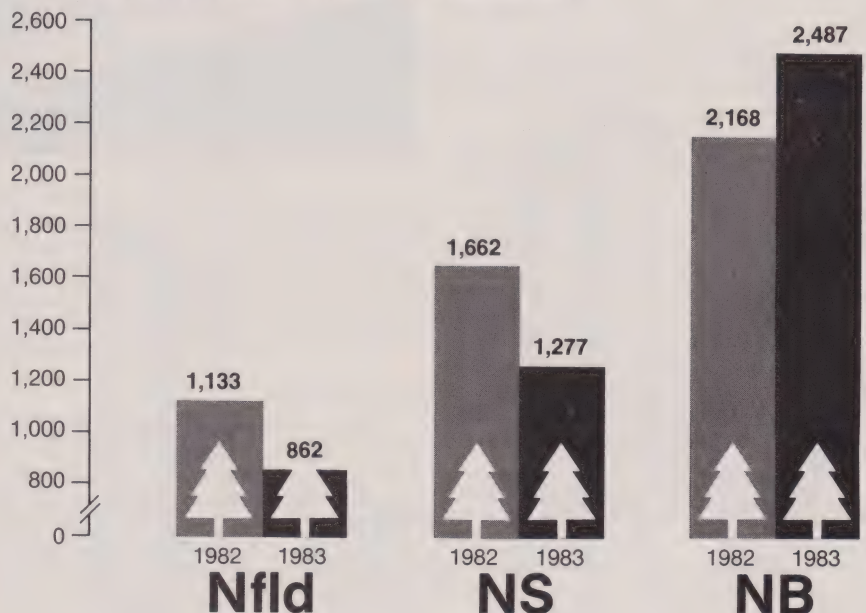
Some closures which affected the pulp and paper sector in the recession have become permanent. One paper-making machine each at Bowater's mills in Corner Brook and Grand Falls has been shut down, and there are persistent rumors that the entire mill at Corner Brook will close in 1984. Other mills throughout the region are undergoing extensive modernization to help them meet increasingly stiff foreign and western Canadian competition, although one of these programs (at the Scott Maritimes mill in Pictou County, Nova Scotia) was abandoned towards the end of a lengthy strike which affected the mill.

Wood supply worries

The condition of the woods in Atlan-

PULPWOOD PRODUCTION ATLANTIC CANADA

(January to August—Thousand Cubic Metres)



Source: Statistics Canada



tic Canada, in the opinion of many, has rarely been worse and this threatens future wood supply to all sawmills and pulp mills. Nature's ability to regenerate naturally in the Atlantic region is quite severely hampered by both climate and disease or insect infestation. In addition, there has been almost no development of woodland management in the region during two centuries of logging.

Spruce budworm has killed millions of acres both of spruce and balsam fir throughout the region since the early 1950s. Some signs of declines in the infestation in recent years have largely been attributed to the fact that the pest is eating itself out of house and home, but there are also alarming indications that more resistant species such as pines may now fall prey to its voracious appetite.

Chemical spray programs have retarded the depredations of the insect to a degree in New Brunswick and Newfoundland, at least long enough to harvest the trees. Such spray programs are coming under intense public scrutiny on the grounds that the sprays used may be injurious to public health.

A further difficulty on the supply side is posed by the age structure of trees

in the existing forest stock, which tends to be mature or over-mature. Future reserves of wood depend to a large degree on a good mix between various age groups reaching maturity at different times to ensure continuity of supply.

Quick action required

The need for intensive management of forests seems rarely to have been needed more in Atlantic Canada. In recent years, both governments and industry have realized that cultivation of the woods is infinitely preferable to mining them. Reforestation is becoming more and more essential, as well as utilization of the existing stock of trees to maximum yield. Reforestation itself presents a pay-back period of at least 40 years, definitely unattractive by standard financial procedures, which highlights the need for some public investment.

Neither must it be forgotten that the region's woods not only present a commercial reserve of fibre, but also an extremely valuable reserve in terms of human recreation, wildlife, and environmental control. Adding these "spiritual" reasons to economic reasons only enhances the profound need for rapid action to regenerate the region's woodlands.

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MINING:

Recovery slow and lumpy

As consumer confidence recovered during 1983, there have been better sales of items such as automobiles and appliances. Initially, this demand for consumer durables was met substantially from inventories, which means that demand from factories for increased supplies of minerals to manufacture these items has so far been quite sluggish. This state of affairs will probably persist well into 1984.

The indications for eventual improvement are largely seen in improving prices for base metals, but it takes time for these prices to affect actual production from the mines. Both zinc and lead prices are stronger, but high worldwide inventories of copper have kept prices for that metal soft.

New developments in New Brunswick

This combination of circumstances has meant, during 1983, a continuing low level of production from the region's base metal mines, mostly concentrated in northern New Brunswick. Efforts to



- Base metal prices showing some signs of strength for the first time in two years, which is particularly good news for northern New Brunswick
- More diversification enters the Atlantic mining industry, with potash in New Brunswick, and tin in Nova Scotia
- Coal production stable, with the prospects of wider markets for a wider range of coal-based fuels
- Labrador iron production will probably never reach levels of previous years as steel mills around North America operate at best on reduced capacity.

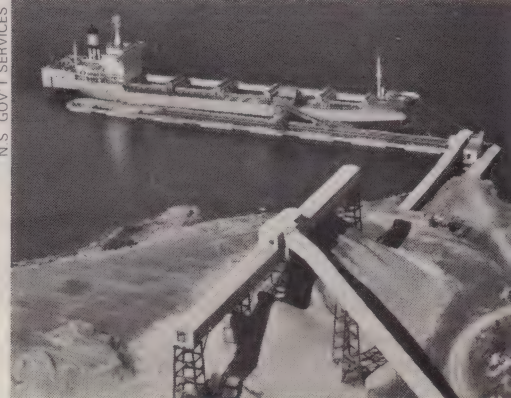
revitalize this area's mining sector include the construction of an ore treatment plant at Chatham, but the zinc smelter originally proposed for Belledune at the end of 1981 is postponed indefinitely until market conditions improve substantially.

New potash developments around Sussex act as a counter-balance to a slow pace of activity in the north. The first new mine will be in full production by the end of 1983, and construction of a second mine will begin in 1984. Recent evaluation of markets for potash indicate that, at least in 1984, there will be considerable strengthening as demand for fertilizer increases.

More diversity in Nova Scotia

Mineral production in Nova Scotia has for long been largely confined to coal, gypsum, and salt. There is an excellent possibility that these three staples will be joined in the near future by tin. Shell Canada Resources confirmed a substantial tin deposit in Yarmouth County several years ago, and had definite plans for development of a mine when it decided to divest itself of all mineral

N.S. GOV'T SERVICES



interests. The tin property was rapidly picked up by Rio Algom who announced during 1983 that development was just a matter of time. This will be the only mine in North America with tin as its major primary product.

By mid-summer, coal production from Cape Breton's mines was running on a par with 1982, and sales to steel companies in South Korea and Japan should ensure that the year ends on a positive note. This diversification of markets is a welcome trend, as at present there is almost exclusive dependence on the two local sources of demand provided by the Sydney Steel works and the Nova Scotia Power Corporation. A world oversupply of coal, however, makes penetration of new markets rather difficult.

There have been encouraging results during 1983 from trials to burn coal in alternative fuel forms. One sees a coal-water slurry being tested at an oil-fuelled electrical generating plant in New Brunswick. Another sees experiments with a synthetic fuel oil produced by liquefaction of coal. Both are still high-cost,

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experimental products, but commercial feasibility could come with any increase in world prices for energy. A liquefaction plant in Cape Breton would bring a much-needed boost to the island's economy.

Gypsum production in 1983 has rebounded strongly in line with improvement in housing markets, and shipments to American wall-board plants through Halifax have been much more frequent than in 1982. Other structural mineral production, such as cement, sand and gravel, has not fared as well, as accumulated inventories of both were enough to satisfy increases in demand from the construction industry.

Nova Scotia's long-established salt industry did very well during the recession, but it appears that production from the province may have peaked, as salt from alternative sources has become available. One of the most important markets for Nova Scotia salt has been for de-icing purposes in the towns and cities of Quebec. Production has now begun at a new mine in the Magdalen Islands with substantial support from the provincial government, and most of the output from this mine is destined for markets within Quebec. Road-salt stocks, as well, are high after a mild winter in 1982/1983.

Levels of production at Labrador's iron mines declined by 35 per cent over the first seven months of 1983, a much steeper drop than for the nation as a whole. Steel mills across North America remain operating at severely reduced capacity. In addition, these mills (the

major market for Labrador iron ore) face stiff worldwide competition from other, very efficient steel producers in other parts of the world. These circumstances make prospects for improvement in Labrador rather bleak. The labour force at the mines is still being reduced, and it will probably be 1985 before any improvement in conditions turns up.

Production from Newfoundland's other mineral endeavours has not fared so badly. The asbestos mine at Baie Verte, rescued from permanent closure in 1982, is now expanding markets all

over the world under new ownership. The base metal mine at Daniel's Harbour has benefited from improved prices for zinc and lead, as has the long-established mine at Buchans. In this latter case, however, there are doubts whether ore reserves can justify operation for much longer.

Change and diversification

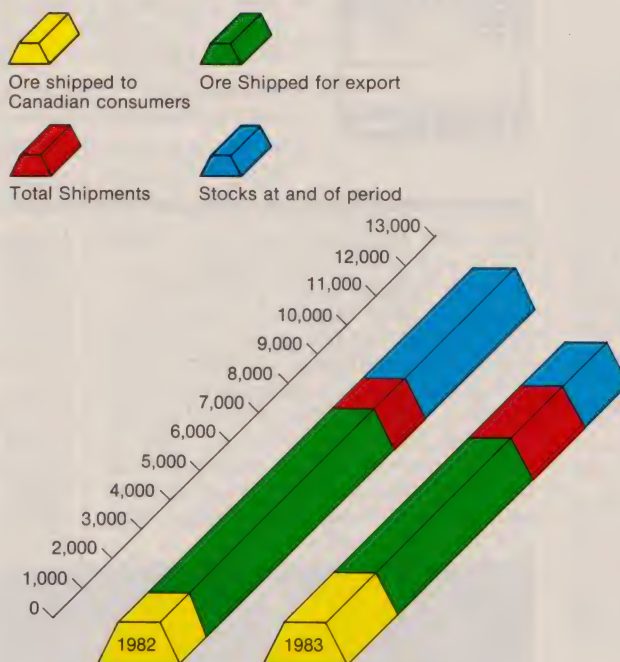
Atlantic Canada's mining sector is undergoing change and there is reasonable scope for optimism in the future. Where reserves justify, base-metal mines will benefit from stronger markets as manufacturing production in North America and Europe returns to normal levels. Eventually, this improvement will also affect the iron mines in Labrador, although it is doubtful whether total output and labour force will ever reach previous levels.

New endeavours add brightness to the overall picture. Diversification into new markets for coal, and into new products such as tin, potash, and more valuable metals such as tungsten and molybdenum give a more solid foundation to future plans. As exploration activity also resumes, and new minerals are discovered, there is the likelihood of other mining enterprises beginning in the region.

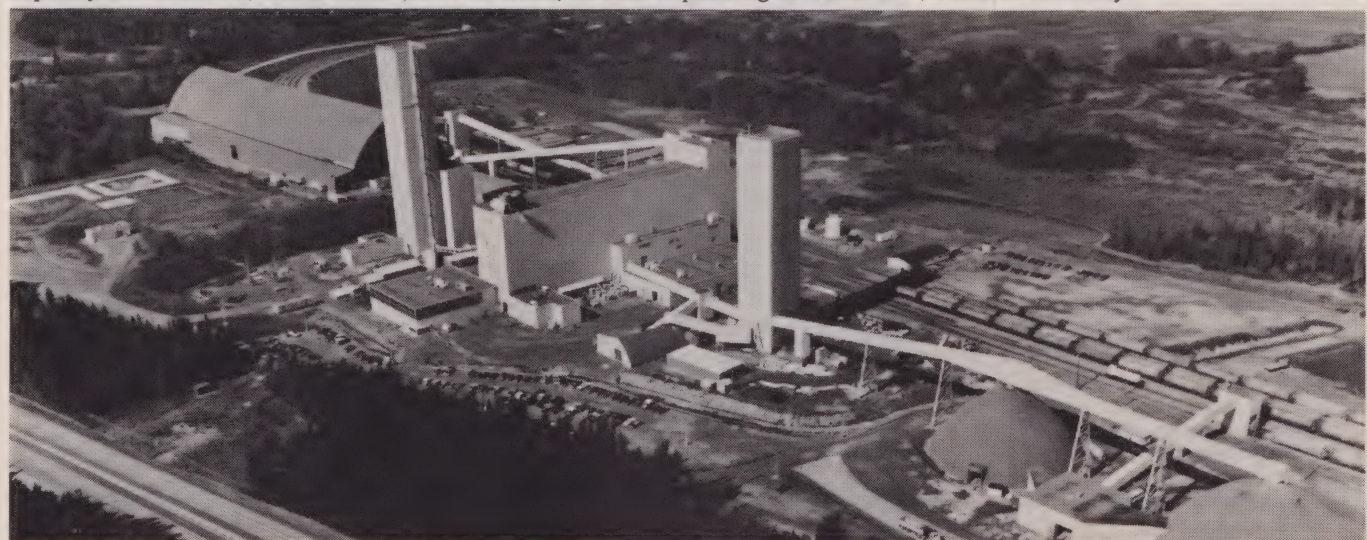
Current efforts in this respect include a resumption of gold prospecting in New Brunswick and Nova Scotia, and a variety of rare minerals such as yttrium and zirconium in Labrador. Any development based on conventional reserves, plus further reserves of established mineral ores, will strengthen an important part of the Atlantic economy.

LABRADOR SHIPMENTS OF IRON ORE

(January to July - Dryweight Tonnes)



Source: Energy, Mines and Resources.



DON CARROLL

ENERGY:

The backdrop of world oil prices

Energy developments in Atlantic Canada in 1983 meant different things to different parts of the region. Both Nova Scotia and Newfoundland turned frequent glances towards offshore exploration and development. Labrador hydro surfaced as an issue every so often. Potential new coal developments in Cape Breton may open new markets for coal. New Brunswick's Point Lepreau nuclear generator began production with the prospect of a second reactor at the plant. And the price of electricity concerned residents of both Prince Edward Island and Nova Scotia.

World oil prices drop

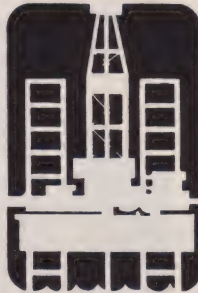
All developments in the region were, in varying degrees, set against the backdrop of a fall in the world price of oil. At the end of 1982, members of the Organization of Petroleum Exporting Countries (OPEC) were struggling to maintain a base price of US\$34 per barrel of oil.

Various measures to achieve this end were tried, including voluntary limitation of oil production to 17 million barrels per day (b/d). This was far below the output OPEC controlled during the late 1970s (about 31 million b/d) and in fact actual production at the end of 1982 was probably closer to 15 million b/d.

Reasons for this rather severe reduction in market influence on the part of OPEC were not difficult to identify. Demand for energy had progressively gone down in the decade or so since the first world oil price shock, as people turned down their thermostats, wore more sweaters, and drove smaller cars. There had also been a significant switch away from oil to other forms of energy. New producers developed reserves, including Mexico and the nations around the North Sea. And global recession had reduced demand even further as factories and plants closed their doors.

All these problems came to a head early in 1983, and the end result was a reduction of the base price for OPEC oil to US\$28 per barrel. There were recurring worries throughout the year that even this price would not hold as producing countries, both members and non-members of OPEC, continued to discount prices to a degree.

These global rumblings, of course, work their way down to the Atlantic region at some stage. So far, offshore exploration has not been affected very much, and indeed several new programs



- Drops in the world price for oil do not hamper hydrocarbon exploration off Newfoundland or Nova Scotia, although lack of a resource management agreement between the federal and Newfoundland governments is still a worry
- New Brunswick's Point Lepreau nuclear generator begins transmitting power to New England, and a second generator is considered
- Nova Scotia's thermal generators in Cape Breton may face much higher prices for coal feedstock
- Prince Edward Island and Nova Scotia residents face higher electricity charges.

have been announced both off Nova Scotia and off Newfoundland.

Both existing and new drilling programs off Newfoundland, indeed, have thrived in spite of few signs of a resource management agreement between federal and provincial governments regarding offshore development. The effects of generous federal incentives to exploration groups with certain proportions of Canadian content cannot be ignored in assuring that frontier exploration in Canada maintains a certain level.

Offshore Newfoundland — still no agreement

The public imagination has probably been more directed towards the impasse between Newfoundland and the federal government this year. A flurry of optimism early in the year attended new initiatives in this respect, and by all accounts a resource-management agreement was ready to be signed. The optimism, yet again, was misplaced, and increasingly bitter recrimination rapidly took its place. Both sides now await final decision on the



PHOTOS BY BUCHHEIT/PHOTON

matter to come from the Supreme Court of Canada, although the Newfoundland Supreme Court has already ruled in favour of the federal position.

Both sides to the dispute have attempted to exercise authority at various times during the year, with exploration companies falling in the middle. One rather disturbing series of incidents saw conflicting instructions issued to rigs during one of the worst years in many for ice. Another saw the federal government unilaterally issue exploration permits for several new programs of drilling in disputed areas.

It is testament to the promise of such discoveries as Hibernia that at year-end a total of nine drill rigs or drillships had operated, or were still operating, either on the Grand Banks or in the short season on the Labrador Shelf.

Offshore Nova Scotia — gas, but no oil

Activity also picked up off Nova Scotia. At the beginning of 1983, a total of six rigs were drilling on behalf of three groups of companies. Movements of rigs in and out of the region during the year mean this number will increase to eight or so by year-end, and as many as five groups of companies will be exploring for hydrocarbons. Several other consortia

have definite plans to begin exploration.

Attention is also centred on development of the Venture natural gas deposit near Sable Island, the only confirmed commercial reserve off Nova Scotia. World prices take on a little more meaning in this respect, and particularly in light of large surpluses of gas in North America.

The logical market for the gas, outside the Maritimes, is in New England, an area which is only partially served by gas imported in liquid form from Algeria. By all accounts, Venture gas would be more than competitive in this market even after a series of reductions in the federally set export price for gas.

A relatively novel twist to the offshore story was added in late summer when a rig spudded a well off the north shore of Prince Edward Island. This was the first wildcat to be attempted in the southern Gulf in three years, but unfortunately the well was dry. Dome Petroleum will in all probability begin an exploration program in the Northumberland Strait in 1984 once exploration permits have been obtained. The same rig which drilled off the Island in 1983, on behalf of a group of companies which includes Irving Oil, moved in September to begin another wildcat in the Bay of

Fundy near Saint John.

Lepreau begins production

New Brunswick had its own energy event to celebrate in 1983 as the first electricity was generated at Point Lepreau. Investigations into installing a second nuclear generator at Lepreau are proceeding.

Lepreau electricity now joins power from other sources in flowing both to domestic customers and to utilities in New England. This welcome diversification in the export-oriented economic base of New Brunswick is enhanced somewhat by the location of the province. This enables it to act as a "broker" in channelling, for example, electricity from Quebec to final markets.

Labrador hydro potential stalled

There was little progress in 1983 in resolving problems which still surround benefits from Labrador hydro. Under a 1969 agreement, Hydro-Quebec buys the bulk of the power produced at the Churchill Falls development at prices equivalent to less than \$2 per barrel of oil. This agreement was signed for a period of 65 years. Attempts to renegotiate have been unsuccessful, and a series of high court actions also seems to

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be running against the Newfoundland position, although a decision by the Supreme Court of Canada is still pending.

Newfoundland is in the odd situation of owning one of the most valuable sources of electrical power in America (plus other sites in Labrador of enormous potential), yet at the same time contemplating the prospect of meeting its own medium-term provincial needs by expansion of thermal generation based on expensive imported oil. The province badly needs access to Labrador hydro to meet its own growth in demand, but this access is denied under the agreement with Hydro-Quebec. There are indications, however, that a new agreement may be reached in 1984.

Thermal generation expands in Cape Breton

Cape Breton coal production during 1983 has remained relatively stable. Most of the production has been slated for one of two major markets, the Nova Scotia Power Corporation's big thermal generating plants at Lingan, and the Sydney Steel works. Activity at the latter has hiccupped along throughout the year, and its future still remains somewhat uncertain.

The first two generators at the Lingan complex have been producing electricity for several years, with double the capacity now under construction. This extra capacity at Lingan is the most assured future market for coal, but negotiations for a new contract for prices in 1983 have been uncompromising. Under the expiring contract, NSPC pays \$49/tonne. The Cape Breton Develop-

ment Corporation (DEVCO) has maintained it needs \$70/tonne to break even on its coal mining operations, which lost \$22 million in 1981/82.

DEVCO's expansion plans are not solely confined to selling coal to NSPC, however, and there are other irons in the fire. Some sales have been made to steel mills in Asia during 1983, and trials to test coal in alternative fuel forms have been quite encouraging. One of these sees a test of a coal-water slurry as fuel for generating electricity in oil-burning plants. The slurry can be stored and transported in much the same way as oil, and conversion of burners from oil to burn the slurry is reportedly much less expensive than conversion to burn coal as a solid. Tests are being conducted at the New Brunswick Electric Power Commission's plant at Chatham.

Even more radical experiments are being conducted. These aim to liquefy coal into a synthetic oil as a substitute for heavy fuel oil. Should these tests prove economical, a huge plant to liquefy coal would probably be built somewhere in Cape Breton.

Prince Edward Island — electricity rate blues

The rates paid for electrical power have remained a big concern of residents and businesses in Prince Edward Island. The province still pays the highest power rates in the country with no relief in sight. During the past several years, it has switched to buying almost all of its power from New Brunswick, effectively retiring its thermal plants on the Island to the status of emergency peaking capacity. Planning for the Island's future

power supply includes consideration of several options, including purchases from Hydro-Quebec.

Power rates also became more of an issue in Nova Scotia during 1983, as several years of subsidized rates finally began to fall prey to restraints on government spending. There is still likely to be an extended period of rate increases for the next several years.

The Tidal Power Project at Annapolis Royal is almost complete, although start of operations is being stalled by industrial action affecting the Nova Scotia construction industry. There are still fond hopes of a giant barrage to harness the Fundy tides, but availability of cheaper energy sources may delay any substantive action on such a project well beyond the end of this decade.

Energy exports encouraging

In a little more than a decade, energy exports from Atlantic Canada have increased from virtually nothing to being worth (in 1982) almost \$300 million. Most of this at present is in the form of electrical power from Labrador (via Quebec) or New Brunswick.

The prospect of oil or gas exports remains exciting, although a little tantalizing given fluctuations in world prices for energy. It is probable that offshore development eventually will occur, and this would represent a welcome shot in the arm for the entire region. The glamour of such a development, however, should not deter exploration of other sources of energy production whether to supply regional markets or for export.

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A more sustained recovery needed

Lower interest rates and a range of government incentives were the main stimulants behind construction activity in 1983. A mid-year review of capital investment intentions in construction projects indicated that total spending in 1983 would reach \$3.7 billion, a 14 per cent increase from 1982.

About 70 per cent of this total is concentrated in three areas: energy and mining projects; government developments; and housing. All activity in the private sector to do with industrial and commercial building, apart from that related to energy projects, remained on a par with, or occasionally fell behind, the pace of 1982.

Energy and mining construction is anticipated to reach a value of \$1.2 billion in 1983, accounting for about one-third of all new capital construction. Potash developments in New Brunswick, and coal and offshore-related endeavours in Nova Scotia account for the lion's share of this activity.

Home building surges in early 1983

By the end of August, 1983, the number of housing starts in the region's urban centres was more than double the number for the same period in 1982. Most of this occurred in the first half of the year and was definitely assisted by a variety of government incentives to stimulate home-building. Lower interest rates also played their part in this respect.

As government programs came to a close, the rate of housing starts slowed down, and the traditional seasonal trough as winter approaches has increased this rate of decline. The number of homes started during the second half of 1983, however, will be higher than in the same period in 1982. The outlook for 1984 in this respect will depend more on interest rates, although increased consumer confidence in the future could add a spur.

Public projects tide builders over

Public capital spending on non-residential construction has almost certainly helped much of the construction sector stay afloat over the past two years. Much of intended government capital construction in 1983 (expected to exceed \$700 million) related to a range of major projects in all four provinces. These include bread-and-butter projects such as



- Lower interest rates and government incentives spur residential building over the first half of the year, and 1984 may also record a reasonable performance in this respect
- Public spending less assured in future as governments at all levels face the spectre of large accumulated deficits, but public projects have done much to keep the building industry alive since 1981
- More expansion in the private sector required for sustained improvement in construction, although energy and mining projects look bright.

highway improvements, and big electricity developments in Nova Scotia and Newfoundland.

Many public projects which were delayed for a variety of reasons in early 1983 received a boost by means of the Special Recovery Projects Program announced as part of the federal budget in April. By the end of May, some \$275 million had been committed to projects in Atlantic Canada. These include long-standing proposals such as a new veterinary college in Charlottetown, a start on a forestry research complex in Fredericton, and fisheries infrastructure and harbour improvements throughout the region.

Some time must elapse, however, between the announcement of any project and actual start-up of work. As 1983 ap-

proached its close, tenders on many special recovery projects were still being called, and this means that little work will actually begin before the 1984 construction season.

Private sector construction still slow

Private industry has not been investing capital in non-residential construction to the same extent that government has over the past two years. At the start of the third quarter of 1983, building permits for industrial construction were down in Newfoundland and New Brunswick, and only slightly up in the other two provinces. A similar pattern characterized permits for commercial (retail, office, and accommodation) building.

This indicates that the business sector has been waiting for more solid signs of sustained recovery after taking quite a severe battering since mid-1981. If this strengthening comes in early 1984, construction later in the year could pick up considerably.

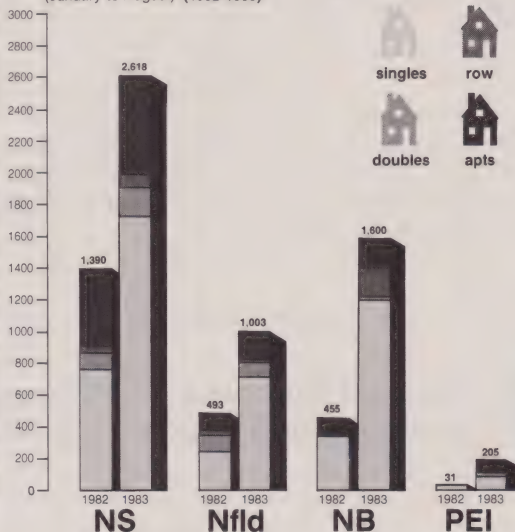
The Conference Board of Canada's fall survey of business confidence confirms these circumstances. Respondents to the survey expressed varying uncertainty about a better economic performance into the first quarter of 1984, and a change in these expectations will be necessary to stimulate any increase in capital spending in plant and equipment.

Government reaching its limits

Given substantial provincial and federal budget deficits it is doubtful whether the pace of public spending can be sustained at the same level as over the past two years. Restraints on government spending now have considerable public sympathy even where public investment may pay off in the future, such as generating stations or research and development facilities. Many businessmen, however, regard the servicing of

HOUSING STARTS IN CENTRES OF 10,000 POPULATION AND OVER BY TYPE ATLANTIC CANADA

(January to August) (1982-1983)



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accumulated deficits as likely to push up interest rates at some stage, and thus deny much-needed funding from the money markets for private capital spending.

There are further concerns, as well, about labour difficulties in certain parts of the region. Many projects on mainland Nova Scotia have been affected, during 1983, by a protracted strike by electrical workers. The electricians, and other tradesmen, are striving to achieve a contract which would come close to earlier settlements which saw plumbers and carpenters get substantial wage increases in each of the next four years.

Nova Scotia's pipefitters have also been awarded a substantial long-term contract. There have been expressions of concern that quite generous settlements such as these, apparently designed to assure industrial peace over a period during which offshore development could begin, run against federal anti-inflation guidelines.

The construction industry needs an improved performance in other sectors of the economy before much of the damage of the past two years can be undone. To repeat, this involves a time lag between the decision to expand and the actual expansion itself. Until this expansion begins, however, a reasonably strong housing market can do no more than keep construction ticking over.

MANUFACTURING:

Still in low gear

The gradual international recovery in 1983 has kept the region's manufacturing sector in low gear. A large proportion of manufacturing activity in Atlantic Canada is closely tied to processing resources for sale in export markets, and slowish recovery in demand in these markets means regional capacity is still under-utilized in 1983, although there has been an improvement since 1982.

Keeping output in line with expensive inventories remains an important and delicate part of production decisions,

and this is reflected in employment and output levels. To the end of September, the average number employed in manufacturing each month was 107,000, down from 109,000 over the same period in 1982.

Later in 1983 there were, however, some signs of improvement. Comparison of only the third quarters of 1983 and 1982 reveals an increased level of employment, and there is likely to be further improvement by year end.

Shipments remain slow

Shipments of manufactured goods, however, were down by about 4 per cent over the first three quarters of 1983, but once again a stronger second half may compensate for earlier months. As it is,



- Resource-based processors generally still mired in recession, although food processors are showing the way
- Slowish recovery in major markets elsewhere in North America also means other manufacturers basically marking time
- An increased pace in the region's factories necessary to fuel export growth.

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shipments from Prince Edward Island were up by about 12 per cent to the end of September, and shipments from Nova Scotia had also slightly increased. The better showing for the Island may be due to increased value of processed lobster after a good fishing season for this species.

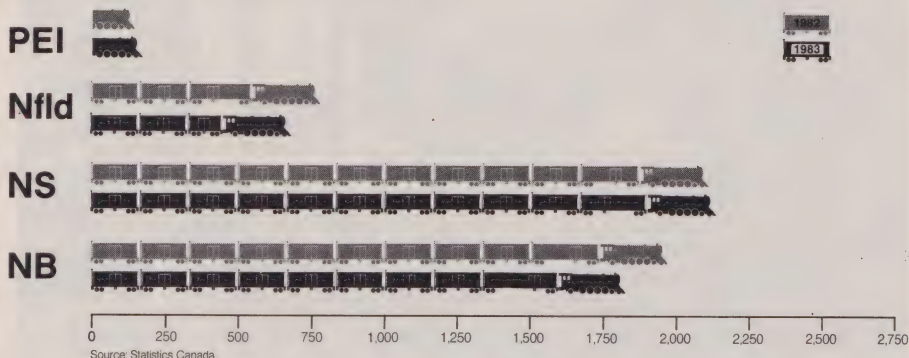
Shipments from Newfoundland and New Brunswick were down quite substantially as resource-based sectors in each province struggled to regain their feet after the recession. This is mainly due to slow demand for forest products from both provinces, particularly pulp and paper. Lumber producers, however, have had a good year as housing markets recovered, but even here housing starts have not reached levels previously recorded at the end of the 1970s. Newfoundland has also been encountering severe problems in its fish processing sector.

Metal fabrication and transportation factories have not performed well so far in 1983, and recent better news for Sydney Steel and the Hawker Siddeley car works in Trenton, Nova Scotia, is not likely to be reflected in final figures for the year.

Food and beverage manufacturers have been one of the region's brightest

MANUFACTURING SHIPMENTS ATLANTIC CANADA

(January to July — MILLIONS of Dollars)



growth areas during the 1970s, and final figures at the end of 1983 will probably show a slightly better year than in 1982 in spite of a sluggish performance over the first three quarters. Reorganization of the fish-processing sector in both Newfoundland and Nova Scotia may improve results in early 1984.

Investment intentions reflect overall conditions

This generally slow pace so far in 1983 is also reflected in intended capital investment in both manufacturing construction and equipment installation. The trend seems to be spending on repairs rather than on new plants, and





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TOURISM:

High expectations, spotty performance

Most tourist operators in Atlantic Canada began their plans for the 1983 season in the expectation that recovery from recession would persuade people to undertake the travel they had tended to deny themselves in 1982. Personal restraint during 1982 prompted many to stay closer to home, if indeed take any vacation at all.

There was probably a lot of truth to the sentiment that people would travel more in 1983, but overall benefits to the Atlantic region have been uneven, with some areas reporting good results, others not so good. The biggest disappointment was in Prince Edward Island, where the number of visitors in the two peak months of July and August was down quite significantly over the same two months in 1982. There was a little improvement in the shoulder-month of September, which turned out quite warm and sunny, but not enough to improve overall performance much.

Fewer Quebecers go to the Island

The main reason for this decline on the Island was a drop in the number of Quebec visitors. It appears that residents of this province turned southwards this year after several years of unfavourable exchange rates vis-à-vis the American



P.E.I. TOURISM/WAYNE BARRETT

expansion in terms of new facilities does not figure significantly in business plans.

There have, however, been several positive developments during 1983, each with longer-run benefits for the region. An almost \$4 billion contract for the Department of National Defence's next generation of frigates will be coordinated by Saint John Shipbuilding and Drydock, with substantial parts of the work being sub-contracted all over eastern Canada.

CN Rail has increased its orders for steel rails from Sydney Steel, and recovery in domestic and American housing markets has caused companies to dust off modernization of some of the region's big sawmills. There are ongoing modernization programs under way at many of the biggest pulp and paper mills in two of the four provinces.

Manufacturers as a group are also collectively relieved that the federal government has decided not to reduce freight rate assistance programs which, since the 1920s, have subsidized the movement of products both within the region and to important markets in central and western Canada. A study of the importance of these subsidies during 1983 came on the heels of reduction in levels of parts of the program over the past two years.

Threats to manufacturing remain

There are many uncertainties facing important parts of the region's manufacturing sector in the near future. The European Economic Community is reportedly examining a reduction of its imports of newsprint, and this would seriously affect Newfoundland pulp and paper mills especially. The Canada Packers plant in Charlottetown has been reduced to the status of a kill-and-chill operation, and indeed only remained open after intervention by the provincial government to buy the plant. Island

authorities are negotiating with other companies to open a new meat-packing plant to serve the province's livestock farmers.

Although a new communications technology factory has been built by Mitel at Buctouche in New Brunswick, recession has taken its toll of the company to the extent that no work has yet started there. Future expansion of this plan is in doubt, but local residents would probably be thankful if even the present space became operational.

Gradual recovery likely

Taken as a whole, the region's manufacturing sector will probably show slight gains at the end of 1983 as gradual recovery in major markets trickles down in the form of orders from regional factories. A large part of total production is in the form of semi-finished goods which undergo further manufacture into end products in other parts of North America. Many American factories have been reducing accumulated inventories during the recovery to date, and only when these inventories begin to build up again will definite orders emerge from the United States and other buyers.

Recovery in the United States is expected to be modest by post-war standards, as consumer confidence remains relatively low, unemployment rates remain high, and job security is not quite as assured as in the past. There have been considerable reductions in inflation, but interest rates remain high especially when compared to the rate of inflation.

Incomes have also, in general, tended to increase by less than the rate of inflation, which means that a mild consumer spending spree in 1983 in Canada and the United States has been financed largely from personal savings. A more robust recovery must await the time when consumers feel comfortable with spending. ■



- High expectations earlier in 1983 have not always been fulfilled, and Prince Edward Island in particular has fallen short of targets
- Theme promotions in the other three provinces seem to have paid dividends in attracting visitors, although performance has not been uniform across each province
- The industry probably aiming for quite rapid change as the demands of tourists for more and better facilities increase.

dollar had tended to deflect them to other parts of Canada. The number of American tourists to the Island was up, and bus tours did very well.

Reasons for overall declines in tourist travel to the Island are difficult to identify. American visitors may realize that a depreciated Canadian dollar is not such a good deal in the face of high prices for gasoline and other consumer items. As well, evidence is accumulating that tourists demand much more than warm water swimming, clean accommodation, and overall hearty down-home surroundings. They also demand sophisticated entertainment, and accommodation facilities such as tennis courts, whirlpool baths, and swimming pools.

The undoubted physical attractions in Prince Edward Island must, over the next few years, be complemented by quite a radical addition of infrastructure to maintain and expand its share of the tourist market if these trends are confirmed.

These promotions pay off

The other three provinces hinged their tourist seasons on a variety of themes. Indeed, Nova Scotia managed to combine two themes which celebrated different ancestries. In northern and eastern parts of the province, the International Gathering of the Clans came to town for the second time. In western areas, the Bicentennial of Loyalist settlement saw a wide variety of activities undertaken. By all accounts, Nova Scotia did the best of all the provinces, particularly in attracting American visitors.

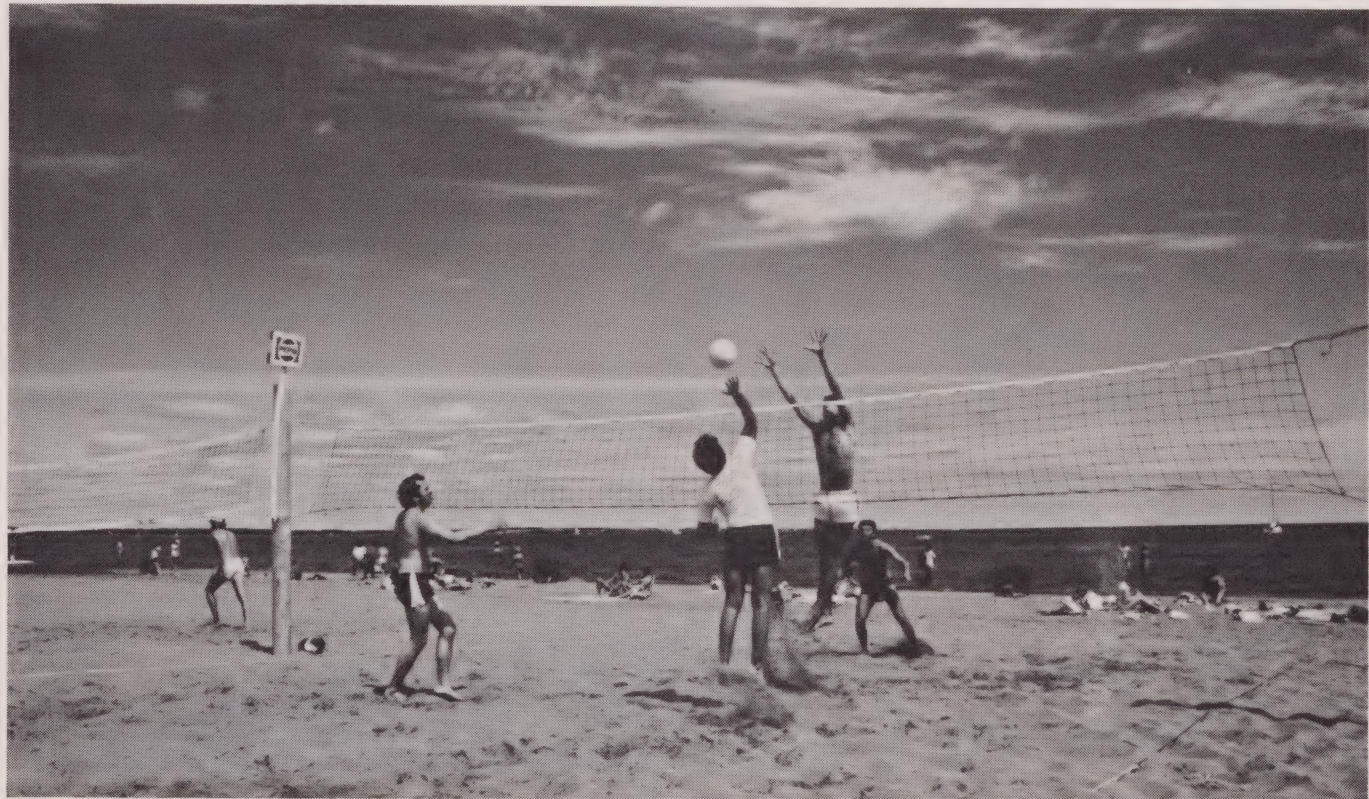
New Brunswick is perhaps better known as the centre of Loyalist settlement in eastern Canada, and the province staged its own array of celebrations on the Bicentennial theme. This promotion was particularly successful in the main areas of Loyalist settlement, in the southern half of the province which

is also adjacent to the United States.

An added attraction in Saint John was the brand new Market Square development, with shopping facilities, hotels, and convention accommodation. Other parts of New Brunswick, away from the south, did not fare as well as the south.

Newfoundland also celebrated its history with a promotion centred on the 400th anniversary of the landing of Sir Humphrey Gilbert. Official figures put visits in June and July up by 6.5 per cent, due in particular to more people travelling from the Northeastern States and Ontario. In general, the province also maintained its number of visitors from Quebec and Nova Scotia (the two most important origins of vacationers in Newfoundland) as well as New Brunswick and Prince Edward Island.

Throughout the region, the tourist season in 1983 may not have lived up to expectations but good performances in certain parts offset a decline in tourists elsewhere. The tourist industry is a most important part of Atlantic Canada's economic base, and provides many jobs during the summer season. Theme promotions are one way to attract more visitors, and undoubtedly complement the natural physical attractions which abound. The need to develop the field of specialist vacations still remains a concern and a challenge as tourists continue to demand better and better facilities as a matter of course. ■



N.B. TOURISM

TRANSPORTATION:

Dominated by freight subsidy issues

Freight subsidies in Atlantic Canada date back to 1927, with passage of the Maritime Freight Rates Act. This was designed to assist the transportation of goods both within Atlantic Canada (it was extended to cover the island of Newfoundland when that province joined Confederation in 1949) and also to assist transportation of goods to important markets in central and western Canada. Initially applied only to transportation by rail, the subsidy was extended to transportation by trucks by means of the Atlantic Region Freight Assistance Act in 1969.

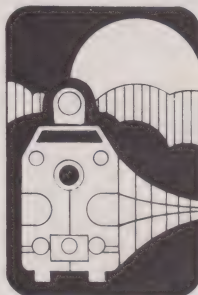
These rather complex pieces of legislation have become such an important part of business decision-making processes in the region, there was an uproar when the federal government made a unilateral decision to commission a study into the possible effects of reduction or removal of assistance early in 1983. The study came on the heels of a progressive reduction of the subsidy on transportation within the region since early 1982, from a level of 15 per cent to 10 per cent in one year.

Strong reaction to proposed change

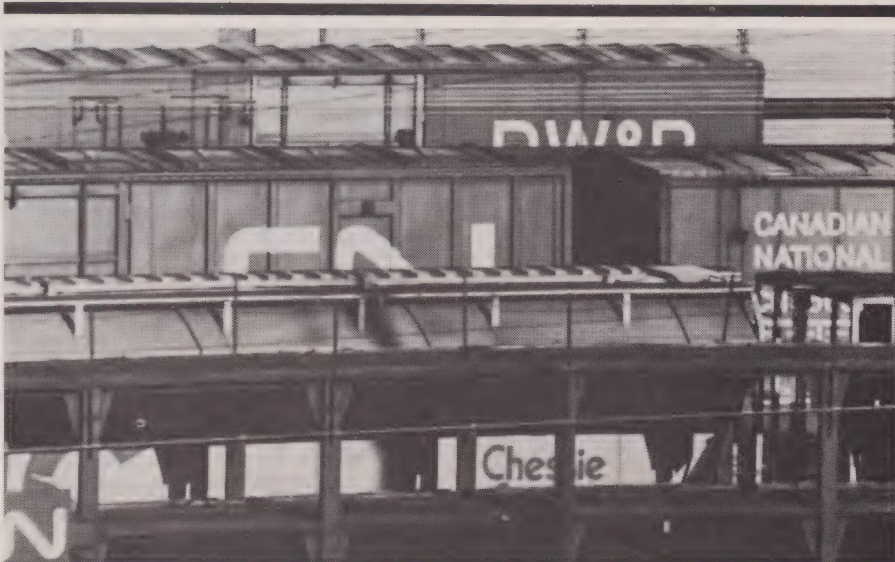
Businesses and various interest groups trumpeted their alarms at the prospect, coming as it did at the same time as profound changes to the Crow's Nest freight rates began their laborious passage through Parliament. If a long-standing, almost sacred system of subsidies to assist the transport of western grain to point of export could be changed, it was argued, then what hope could be held out for Atlantic freight subsidies?

In the event, the subsidies remain untouched, at least for the time being. Final results of the consultants' report, however, underlined the substantial reliance of Atlantic Canada's resource producers and manufacturers on the subsidies, and therefore their vulnerability should they be reduced or removed. Complete removal of all subsidies, it was estimated, would mean the loss of more than 12,000 jobs in the region. Industries particularly affected would be forestry, and food products.

Although the subsidies remain in force, the reliance of important sectors on such assistance is disturbing, and it is doubtful whether the issues raised over the past two years have finally been laid to rest. Even the theory behind subsidies has become confused. One school of



- 1983 dominated by discussions over the future of freight assistance subsidies for Atlantic goods, which remain untouched, at least for a while
- Port of Halifax improves its performance, Port of Saint John suffers from poor performances in New Brunswick's resource industries
- Traffic on CN Marine's ferries indicates slightly better performances in both Prince Edward Island and Newfoundland
- Eastern Provincial Airways dogged by labour dispute throughout year.



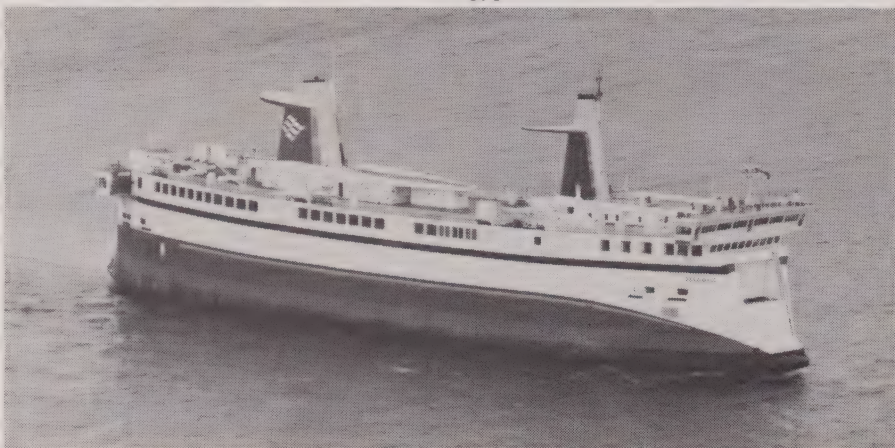
thought sees them as an integral tool of economic development, another as an obligation to make certain of the terms and conditions of Confederation a little more equitable, given the area covered by Canada and distance between markets. If nothing else, the discussions of 1983 have served to highlight the importance of good transportation systems to keep Atlantic businesses competitive.

Port results show mixed results

Shipping through the ports of Halifax and Saint John has reflected, in part, the relative performance of the New Brunswick and Nova Scotia economies

in 1983. The heavily resource based New Brunswick economy has not yet been able to accomplish much in the way of recovery, as markets for forestry products (except lumber) and minerals have remained soft. Tonnage shipped through Saint John as a result was down by more than 16 per cent to the end of August over the same time period in 1982, although there were signs of improvement after the first half of the year.

Halifax, on the other hand, has done much better, with tonnage up by 9.5 per cent to the end of September. There were particularly big increases in imports of crude oil and exports of refined oil and gypsum. Halifax has also reversed a



APEC

trend of container lines leaving the port in the past few years, and new lines have begun calling, including the American giant of the business, Sea-Land. There are also proposals afoot to expand the Fairview Container Terminal to accommodate more than one ship loading or unloading at any one time.

Ferry traffic improves, but strikes affect air traffic

Commercial traffic using CN Marine's ferries also reflect improved economic conditions in Prince Edward Island and Newfoundland. Crossings on the North Sydney-Port aux Basques run were up by 8 per cent, those on the Tormentine-Borden run were up 6 per cent, both over the first nine months of the year.

Air transportation within the region in 1983 saw an extremely bitter labour-management confrontation at Eastern Provincial Airways. Contract negotia-

tions were due with both ground staff and pilots. The ground staff settled relatively quickly, but an acrimonious dispute arose with the pilots.

The airline reached the stage of dismissing its unionized pilots and began hiring replacements. A series of legal battles ensued, even after the strike was settled, and the latest episode in the fight saw the airline's right to dismiss its pilots upheld on an appeal of a previous Labour Relations Board decision.

Transportation — time for study?

Transportation issues are rarely very glamorous because of the complexity of the sector. Even important discussions, such as those surrounding freight subsidies, are usually carried on at a level which the general public either fails or neglects to understand.

This underestimates the importance of the region's carriers of goods and people as an integral part of Atlantic Canada's total economy, both as a means of getting products to market, and as a source of employment in its own right. The events of 1983 may herald some important structural changes within the entire transportation sector, and these deserve more attention and review of alternatives before the fact rather than after. ■



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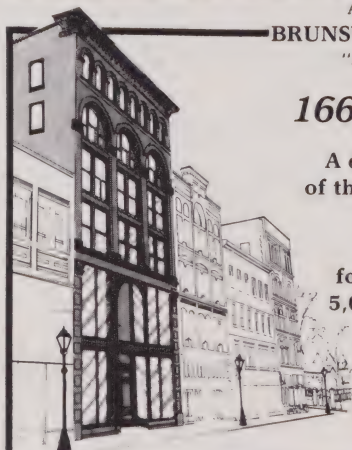
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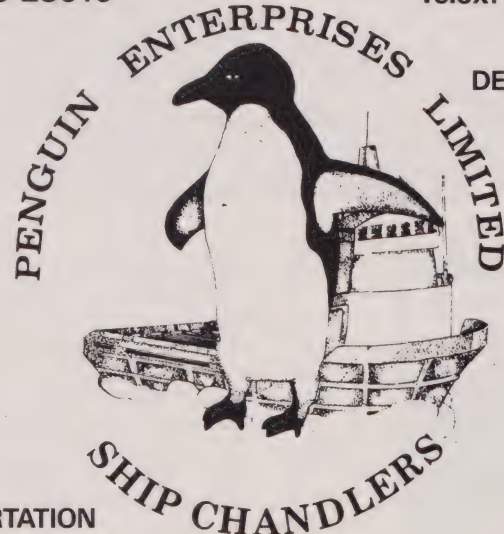


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REGIONAL DEVELOPMENT POLICIES:

A change, but is it for the better?

The sudden demise of the Department of Regional Economic Expansion at the beginning of 1982 can be likened to fog rolling in; navigating in familiar waters suddenly becomes much more difficult than if the air were clear. DREE represents the clear skies, when at least there was an accepted set of ground rules which governed regional development. Almost two years after DREE was discontinued in its established form, there is no clear direction to regional programs.

Although implicit policies and programs to assist the various regions of Canada are as old as Confederation itself, explicit assistance only emerged after the Gordon Commission reported in 1957. Certain regions were singled out for special attention, including Atlantic Canada. The fundamental aim was to reduce regional disparities, and help regions realize their potentials.

Development tools used to date

Three main sets of policies have been used. The first is a complex system of revenue transfers by means of equalization payments and Established Program Funding, which assists health and post-secondary education. The second was a variety of short-term programs, often characterized as make-work projects. The third involves longer-term development initiatives, by such means as General Development Agreements.

DREE, which was set up in 1969, was particularly instrumental in administering the third of these mechanisms during the 1970s. General Development Agreements were signed with all the Atlantic provinces (although Prince Edward Island had its own special form of agreement, the Comprehensive Development Plan) and provided the framework for an array of sub-agreements to cover various sectors and special projects.

Commitments under the GDAs ushered in an era of cooperation and consultation between federal and provincial governments, but even by 1980 there were signs of radical change to this system. DREE's share of the federal budget gradually declined over the 1970s (from 2 per cent in 1969 to less than 1

per cent in 1980), and the Atlantic provinces' share of this reduced allocation also declined substantially (from 53 per cent in 1969 to 32 per cent in 1980).

The reasons for this decline are rather difficult to identify. One may be that DREE's mandate required it to cut across traditional lines of responsibility of established federal departments, and cooperation between the various departments is not a feature of the federal bureaucracy. There is also the fact that DREE spending lacked visibility, and the federal government may have resented this, especially when the provinces took credit for initiatives.

Finally, in the early 1980s economic recession enveloped the industrialized world, and intensified the conflicts over regional development spending. As sharp eyes were turned to scrutinize the effectiveness of the programs, the fog began rolling in.

The fog rolls in

DREE as we knew it was dismantled ostensibly to change the focus from assistance for a limited number of specific regions (including Atlantic Canada) to assistance for all regions of Canada. Another aim was to expedite proposed major project developments across the nation. This broadening of the DREE mandate occurs at a time when disparities between the Atlantic region and the rest of the nation are widening.

Program responsibilities of the old DREE and the Department of Industry Trade and Commerce were transferred to a new Department of Regional and Industrial Expansion (DRIE). A new Ministry of State for Economic and Regional Development has taken responsibility for policy with a direct link to the federal cabinet. The actual transfer of responsibilities has taken much longer than expected.

This lengthy period of relative inaction is probably due to the fact that the dismantling of DREE was not preceded by any period of review. The interregnum represents the thickest part of the fog, and has not been without harsh criticism, particularly of lack of review of the good and not-so-good points of previous policies and programs. Meanwhile, negotiations on a new set of GDAs (or their successors) were effectively stalled. It took 15 months before clear details of the new development assistance programs emerged.

A new framework

As part of the debate on the April, 1983, federal budget, the main structures and responsibilities of the new Department of Regional Industrial Expansion began to emerge. A Regional and Industrial Development Program combining many previous programs has become the federal government's principal vehicle for delivery of regional development assistance.

This program will be available across Canada with eligibility to be determined according to an index of disparity. The index will be based on a measure of unemployment, income and fiscal capacity of each one of Canada's 260 Census Divisions. Census Divisions in the Maritime provinces correspond to county lines.

Criticisms have been levelled at the new structure. There is concern at the appropriateness of assistance at the level of Census Divisions. Such a small area frequently may lack the necessary infrastructure to enable it to take advantage of programs. Equally, concentration on the Census Division may detract from emphasis in natural growth centres. There are also claims that the system will be insensitive to chronic regional disparities, where hidden unemployment, for example, would not be reflected in the development index.

The ideal regional policy?

Discussion of regional policies excites quite extreme emotions, especially in a region such as Atlantic Canada which has, to a degree, benefited from such policies. There are those who strongly believe that the programs which have demonstrably worked in the past (the GDA program is frequently cited in this respect) should be maintained and strengthened, and that the Atlantic region must have a substantial injection of public money to permit economic growth.

At the opposite extreme are those who maintain that regional development policies interfere unduly with flows of capital and labour, and thus interrupt the workings of the market place. It merely becomes a prop which does not in itself cure, only supports, structures which would and perhaps should be allowed to fall down.

Political realities dictate that any regional policy would probably fall between these two extremes. Whether the radical changes of the past 18 months have struck this delicate balance remains to be seen. ■

Insight



Travel Insight

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MORE THAN JUST A NEWS MAGAZINE



LABOUR:

The rules of the game change

For most of 1981 and all of 1982 Canada, and indeed the world, was in the deepest recession since the 1930s. Over this period, unemployment in the Atlantic region and Canada as a whole reached record levels. With demand falling worldwide for the region's exports, capacity utilization in first the secondary and then the primary sectors declined severely. Plants closed and demands for raw material fell off. As recovery began to heat up early in 1983, unemployment rates, in contrast to previous experience with recession and recovery, remained virtually unchanged. The ground rules were changing.

Trends in unemployment

Patterns of unemployment in the past have been either structural (related to the composition of the economy) or cyclical (related to the ups and downs of the business cycle). In the Atlantic region both types of unemployment often hit with more severity than they do on the national level. In the 1960s and 1970s, structural aspects, such as the entrance of the baby boom to the labour force and increased participation by women, contributed to rising unemployment levels even though demand and industrial output were on the increase.

In the Atlantic region further structural difficulties, including seasonal employment patterns and lack of industrial opportunity, contributed to even higher levels of jobless. In addition, the region's extreme dependence on resource-based, export-oriented primary industries made the region more vulnerable to shifting patterns of world trade and cyclical downturns in the economies of major trading partners.

The recession and its aftermath

Many specific aspects of the unemployment problems that we continue to have at present are indications both of the depth of the recession we have just come through and the changing ground rules in the labour market. Many prime-age workers (25 to 55 years old) with considerable training and experience joined the ranks of the unemployed for the first time.

The unemployment rate for young males (15 to 25 years) continues to be much higher than average. Youth unemployment, often involving untrained and inexperienced workers, was more than 1 in 4 in Canada. In parts of the Atlantic region this ratio reached 1 in 2.



BUCHHEIT/PHOTON

Unemployment rates also varied within provinces, with areas such as Northern New Brunswick, Cape Breton and western Newfoundland recording unemployment rates far in excess of provincial averages.

Unemployment statistics do not tell the whole story. Hidden unemployment is usually missed by official statistics. This hidden unemployment, sometimes caused by the so-called discouraged worker effect, includes workers who perceive a lack of job opportunities and leave the labour force (that portion of the population between the ages of 15 and 65 who are working or actively looking for work).

Changing rules

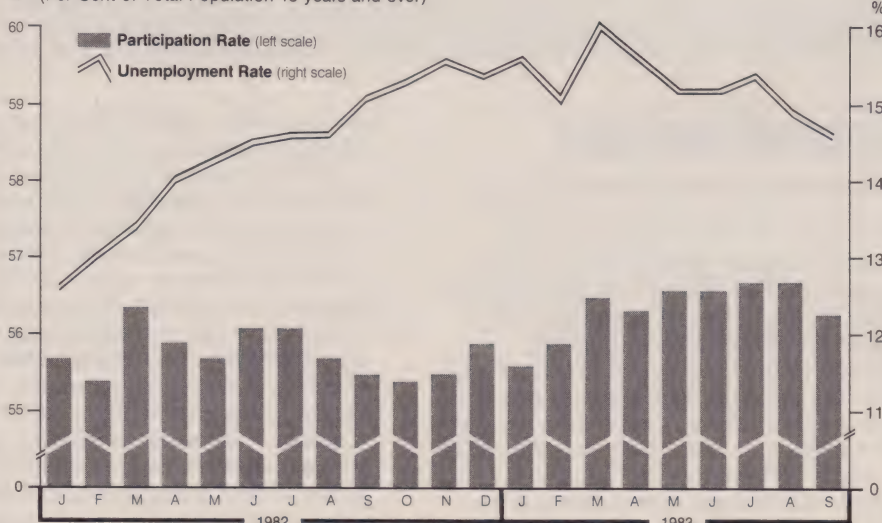
As recovery progressed and output began to inch back to former levels, expected rebounding of employment and declines in unemployment rates did not occur. There are a variety of reasons for this. Discouraged workers who had left the labour force began to look for work again. As they rejoined the labour force participation rates increased.

In addition, employment growth was slow by historic standards. Companies had found they could get by with fewer employees through increased productivity. This has meant increased use of new technology and reduced requirements for traditional skills.

Labour demand has shifted to high-skill areas while the policy focus for government has shifted to the identifica-

ATLANTIC PROVINCES LABOUR FORCE PARTICIPATION RATES

(Monthly-Seasonally Adjusted)
% (Per Cent of Total Population 15 years and over)



Source: Statistics Canada

APEC THE OUTLOOK:

tion of skill needs, the meeting of skill requirements through training and the provision of temporary assistance to those caught in the middle.

Government's role

Although limited by fiscal restraint, governments have managed to maintain traditional assistance programs while addressing, at least to some extent, the special cyclical problems that have come out of this recession and the new structural problems which have begun to evolve. Unemployment insurance claims rose sharply during the recession, vastly over-taxing the UIC system and forcing adjustment to premiums paid by companies and individuals. By late 1982 and early 1983 many claimants faced exhaustion of their UIC eligibility. In response, the government committed \$1.5 billion in 1983 to support directly the creation of jobs for those most seriously affected by recession. Commitments included funds for those who had exhausted their unemployment eligibility, and special programs for unemployed youth.

In particular, the youth programs focussed on programs to provide essential training and experience in addition to more traditional make-work programs. It is this type of policy (which addresses structural and cyclical problems simultaneously) that much be the basis of future initiatives.

The future

The labour force will experience a period of profound changes over the next 10 or 15 years. Structural pressures of the baby boom and greater participation by women will continue to be felt. Higher unemployment will be commonplace as new structural difficulties more than compensate for easing cyclical problems. A new emphasis on increasing productivity through technological change will see certain workers displaced. Emphasis on training and retraining will increase and skill-demand forecasting will become an important and essential tool of government.

Institutions will likely face considerable change in the future. Educational institutions must consider rationalizing programs offered with skills demanded. These institutions may also begin to consider more direct links with industry as they adjust to the realities of fiscal restraint.

In the Atlantic region it seems certain that a high quality, well trained labour force must be part of future hopes for economic development and greater job creation. For this to occur, the region's companies must pursue productivity gains by adopting new technology, and institutions and governments, along with business, must collectively recognize skill needs and provide or them. ■

There are widely divergent trends in the short-term outlook for the Atlantic economy, mostly from province to province. Newfoundland fares the poorest with weaknesses in all major sectors. New Brunswick and Prince Edward Island will fall in line with the national pace of recovery in 1983, with a promise of better performances in 1984. Nova Scotia offers the brightest picture, with its relatively more diversified economic base, and the promise of offshore-related developments.

Newfoundland and Labrador

Resolution of problems in the fishery, resumption of a higher rate of capacity utilization in North America's steel mills, and increasing demand for paper products are essential components of Newfoundland's economic performance over the next year or two. In all three cases, the outlook for 1984 is rather sobering, but there is likely to be better news beyond this.

Brighter points come from a respectable pace of offshore exploration activity in spite of falling world oil prices and lack of a resource management agreement between federal and provincial governments. The past 12 months have also seen a healthy pace maintained by residential construction, and some of this pace will continue into 1984 and beyond. There are also major projects well under way in St. John's and elsewhere in the province (including the Cat Arm hydro development) and these will help cushion the blow of a slower than average recovery.

Prince Edward Island

Predicting events on the Island is always rather difficult because it is a relatively small economy, and any improvement in a single sector (particularly in agriculture, tourism, and the fishery) will definitely influence the course of the total economy. A better than usual potato harvest in 1983 is likely to carry over into 1984 as the crop moves to market during the early part of the year. Construction is also likely to be a bright spot as work starts on a new veterinary and aquamarine college, and Charlottetown airport expansion continues. These will supplement a degree of residential construction which itself represents a vast improvement over the past year or two.

The tourist industry over the past two years has done no better than average, and for 1983 was actually quite a disappointment. This important part of the Island economy must examine its strategies for 1984, and must come to grips with changes affecting tourism in general. It may be that plans such as that proposed for a tourist complex at Greenwich, with comprehensive and integrated facilities,

set the future direction of the industry.

Nova Scotia

Economic performance for Nova Scotia is predicted to lead the country in 1984, mostly riding on the shoulders of offshore exploration activity. Established drilling programs will continue, and new ones will begin. The prospect of actual developments offshore remains further cause for optimism, but the risks which attend this have increased over the past twelve months, mostly because of dropping prices for oil around the world.

The relative diversity of Nova Scotia's economic base compared to its Atlantic neighbours assures a degree of protection from recession and more resilience when business conditions improve. This should not, however, mask the fact that much of the resilience is found in the Halifax/Dartmouth urban area, the business, financial, educational and administrative core of the province. Variations within Nova Scotia mean that recovery in Cape Breton or Pictou County, for example, may not match the provincial average.

New Brunswick

A degree of recovery in markets for forest products and minerals will benefit New Brunswick in 1984, but this recovery will be very slow by historical standards and a large part of industrial capacity will remain idle until 1985. The province is better located to serve a strengthening market for newsprint than, for example, the forest product sector in Newfoundland, and the prices for important base metals are beginning to improve.

The next few years will also see reason for optimism in the New Brunswick economy, as potash shipments begin from mines near Sussex, and as construction continues to maintain a healthy pace. The province, however, badly needs extra diversity to help it absorb economic downturns, and new manufacturing plants could provide this diversity.

The longer term

The more optimistic notes in the short-term outlook should not obscure the fact that the region still faces fundamental problems of a structural nature. Some of these (high unemployment, low productivity and low investment) were discussed earlier in this supplement (see page 8). Finding a solution to these problems, along with others such as diversifying the range of our export products, and improving the markets to which these products are sold, represent challenges to the region's businessmen and governments. They also represent true tests of the strength and character of all residents of Atlantic Canada. ■



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